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MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Text for further negotiation on principles, modalities, rules and guidelines

Note by the Chairmen

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INTRODUCTION

A. Mandate

1. The Conference of the Parties (COP), at its fourth session, by its decision 7/CP.4, adopted a work programme on the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol (FCCC/CP/1998/16/Add.1).

2. The COP, at its fifth session, by decision 14/CP.5, requested the Chairmen of the subsidiary bodies to revise their note entitled "Mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol. Synthesis of proposals by Parties on principles, modalities, rules and guidelines" (document FCCC/SB/1999/8 and Add.1), to incorporate further proposals by Parties and to consolidate a text for further negotiation, in accordance with comments by Parties (FCCC/CP/1999/6/Add.1). Parties were invited to submit further proposals, consistent with the existing framework in the note by the Chairmen, by 31 January 2000. Submissions were received from 15 Parties. These are contained in document FCCC/SB/2000/MISC.1.

3. The COP, at its fifth session, by the same decision, had also requested the Chairmen of the subsidiary bodies to convene inter-sessional meetings and workshops to assist in undertaking preparatory work for the Conference of the Parties at its sixth session, drawing on technical expertise, as appropriate, taking into account the need for transparency and regional balance in representation, and the need for Parties to review the work of the experts. Upon the request of the Chairmen, Mr. Chow Kok Kee (Malaysia) convened and chaired informal consultations on mechanisms (Petaling Jaya (Malaysia), 20-23 March 2000). An oral report on these informal consultations will be made by Mr. Chow Kok Kee at the Workshop on Mechanisms, held during the week prior to the twelfth sessions of the subsidiary bodies in Bonn (Germany) and at the twelfth sessions of the subsidiary bodies.

4. The COP, at its fifth session, had further requested the subsidiary bodies, at their sessions prior to the sixth session of the COP, to take forward the consolidated text as a basis for further negotiations on principles, modalities, rules and guidelines, with priority given to the clean development mechanism, with a view to the Conference of the Parties taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) at its first session (decision 14/CP.5).

B. Scope of the note

5. This note by the Chairmen responds to the request to consolidate a text for further negotiation. It is based on the "Synthesis of proposals by Parties on principles, modalities, rules and guidelines" (document FCCC/SB/1999/8 and Add.1), the "Note by the Chairman of the contact group on mechanisms", distributed at the fifth session of the COP by Mr. Chow Kok Kee

(Malaysia), further submissions by Parties (document FCCC/SB/2000/MISC.1), as well as views expressed by Parties on the occasion of the informal consultations.

6. There are four parts to this document. Part one includes definitions and abbreviations used throughout the document. The placing of definitions and abbreviations in a separate part is for ease of reference only and does not include a judgement on the part of the Chairmen where such definitions shall be placed at a later stage. The subsequent three parts contain text, including appendices, for each of the mechanisms under Article 6 (referred to by some Parties as "joint implementation" (JI)), Article 12 (clean development mechanism (CDM)) and Article 17 (emissions trading) of the Kyoto Protocol.

C. Approach

7. As requested by the fifth session of the COP, this text for further negotiation has been consolidated consistent with the framework in document FCCC/CP/1999/8 and Add.1. In parts two to four of this document, three major areas for each mechanism are addressed, namely nature and scope, methodological and operational issues, and institutional issues. This document also contains appendices for each of the mechanisms. It should be noted that the placing of text in parts, sections or appendices does not prejudge the commonality or otherwise of any issues.

8. This text for further negotiation has been consolidated where convergence between Parties' views was apparent. Diverging positions are represented with bracketed text or, when necessary, with alternative paragraph options. In consolidating, every effort was made to reflect the substance of proposals by Parties. Editorial changes were made where they appeared warranted, such as for converting text into "legal language". In some instances, narrative text has been included (as notes in italics) for explanatory purposes.

9. The superscript coding system used in document FCCC/SB/1999/8 has been retained. These codes identify the sources of text, in accordance with the list provided at the end of the document. Proposals made by the Chairmen have been identified with the superscript code "2".

10. For ease of reference and comparison, the paragraph numbers from document FCCC/CP/1999/8 are included in parentheses.

11. Throughout the document, references are made to issues being addressed in other areas of work. Parties may wish, in particular, to consider this document in the light of provisional agenda item 5 of SBSTA and SBI (Procedures and mechanisms relating to compliance under the Kyoto Protocol), and provisional agenda item 8 (a) (Land-use, land-use change and forestry), item 8 (b) (Guidelines under Articles 5, 7 and 8 of the Kyoto Protocol), item 8 (c) (Good practice guidance and uncertainty management in national greenhouse gas inventories) and item 9 (Development and transfer of technologies) of SBSTA.

D. Possible action by the SBSTA and the SBI

12. The subsidiary bodies may wish take note of this document and provide guidance to the Chairmen on how to take forward the text for further negotiation, with priority given to the CDM, with a view to the COP taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the COP/MOP at its first session.

13. Parties may wish in particular to identify further technical work to be undertaken and indicate a schedule when such work is to be completed.

[1][PART ONE

DEFINITIONS AND ABBREVIATIONS

14. (19) For the purposes of this [rule] [annex], the definitions contained in Article 1 of the United Nations Framework Convention on Climate Change (Convention) and Article 1 of the Kyoto Protocol to the Convention on Climate Change (Protocol) shall apply[2].

15. (20) In addition, in relation to the Convention and the Protocol[2]:

(a) 'Article' means an Article of the Protocol, unless otherwise indicated[4].

(b) 'Assigned amount' for each Party included in Annex I is that amount defined in Article 3, paragraph 7, and Annex B to the Protocol[2].

(c) A 'clean development mechanism' (CDM) is defined in Article 12[2,4].

(d) 'COP' refers to the Conference of the Parties to the Convention[2].

(e) 'COP/MOP' refers to the Conference of the Parties serving as the meeting of the Parties to the Protocol[4].

(f) 'Mechanism' refers to provisions contained in Articles 6, 12 and 17 as well as in relevant paragraphs in Article 3[2].

(g) 'Party' means a Party to the Protocol, unless the context indicates otherwise [2].

16. (21) In addition, in relation to actors[2]:

(a) 'Executive board' refers to the entity supervising the CDM[2].

(b) [An 'independent entity' ...[10]][2]

(c) 'Legal entities' are those entities referred to in Article 6, paragraph 3[2].

(d) A '[designated[2]] operational entity' is a public or private entity [designated by the COP/MOP[2]] [accredited and designated by the executive board[4]] to [validate[10]] [register[4]][verify[2]] [present[12]] CDM project activities, certify reductions in emissions by sources [and/or enhancements of removals by sinks[4]], and undertake other responsibilities as specified[4].

(e) ['Participant'[4]] means a Party, a private or public entity resident in a Party, or both, that has entered into a contractual agreement [on[4]] [to implement[2]] a CDM project activity[4].

(f) "Private and/or public entities" are those entities referred to in Article 12, paragraph 9[2].

17. (22) In addition, in relation to units[2]:

(a) An "emission reduction unit" (ERU) shall be equal to one metric ton of CO_2 equivalent emissions [reduced or sequestered[20]] arising from an Article 6 project, calculated using the global warming potentials (GWPs) defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5[4,10,24]. Each ERU shall have a unique serial number from which it will be possible to determine the Party of origin, the project and project type[3], the year of [issuance[4]] [certification[20]], [and the certifying entity[20]], [and shall be trackable through the registry system[4]][4,10,24].

(b) A "certified emission reduction" (CER) unit shall be equal to one metric ton of CO_2 equivalent emissions reduced or [3][sequestered][20] arising from a CDM project, calculated using the GWPs defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5[4,10,24]. Each CER shall have a unique serial number from which it will be possible to determine the Party of origin, the project and project type[3], the year of [issuance[4]] [certification[20]], [and the certifying entity[20,4]], [and shall be trackable through the registry system[4]][4,10,24].

(c) [21][An "assigned amount unit" (AAU) shall be equal to one metric ton of carbon dioxide (CO_2) equivalent emissions calculated using the GWPs defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5[4,10,19,24]. Each AAU shall have a unique serial number from which it will be possible to determine the Party of origin and the commitment period for which the unit was issued [and shall be trackable through the registry system[4]][4,10].][21]

(Note: This term is not used in the Protocol. It should also be considered as bracketed where it occurs in the remainder of this document.[21])

(d) Excess AAUs are those AAUs that have been certified and can be transferred or acquired under Article 17[24].

18. (23) In addition, in relation to operational issues[2]:

(a) A "project design document" is the documentation through which a project is proposed for validation. It shall include all information needed for the validation of the project as a CDM project[2].

(b) Option 1: "Validation" is the [3][binding][3] assessment by an independent or operational entity, upon request of a project participant, that a specific project activity under Articles 6 or 12 meets the requirements laid down in the rules in the Protocol and in the Convention[10].

Option 2: 'Validation' is the process of evaluation of a project against the requirements of CDM projects on the basis of a project design document completed in accordance with part three, appendix E[1]. This shall be performed by a designated operational entity under a contractual arrangement with project participants[2].

(c) 'Registration' is the formal acceptance by the executive board of a validated project as a CDM project, based on a recommendation by an operational entity[2]. Validation and registration of a project are prerequisites for the verification, certification and issuance of CERs related to that project activity[2].

(d) 'Monitoring' is the systematic surveillance and measurement of aspects related to the implementation and the performance of a CDM project activity in accordance with a registered monitoring plan[2].

(e) Option 1: 'Verification' refers to the independent[3] review of [inventories,] [registries,] [reporting,] [systems] [and projects] to ensure integrity in the use of the mechanisms[2].

Option 2: 'Verification[2*]' is the periodic [independent[3]] review and *ex post*[3] determination by [the[4]] [a[2]] designated operational entity of the reductions in emissions by sources [5][and/or enhancements of removals by sinks][5] that have occurred as a result of a specified project[4].

(f) Option 1: 'Certification' is the [6][binding][6] assessment *ex post*[3] by an independent or operational entity upon request of a project participant of how many additional, real, measurable and long-term emission reductions have resulted from a validated project activity[10].

Option 2: 'Certification' is the written assurance by a designated operational entity that during the verification period a project has achieved the stated emission reductions [and/or removals by sinks] in compliance with all project performance criteria[2].

(g) [Option 1: 'Issuance' of CERs is the function assumed by the executive board on the basis of verification reports[24].]

Option 2: 'Issuance' is the formal release of CERs by the executive board based on a certification by a designated operational entity. The executive board may allocate issued CERs to the registry accounts specified by [project participants] [Parties involved][2].

(h) 'Accreditation' is the process which assesses whether an applicant operational entity meets and a designated operational entity continues to meet [criteria][standards], recommended by the executive board and adopted by COP/MOP, which allow to qualify them to carry out [the functions assigned to them] [validation, verification and certification][2].

(i) "Registry" and "registries" refer to a system of publicly accessible and compatible computerized databases for the recording and tracking in real time of all holdings, transfers, acquisitions and retirements of ERUs, CERs and AAUs by Parties and their legal entities[4,10,24].][13]

(Note: AOSIS observes that a definition of registries may be required. The formulation above is by the chairmen on the basis of submissions by the Parties listed.)

(Note: India notes the following: (i) Articles 6, 12 and 17 should not be preceded by another part on the definitions. Definitions for any particular item relevant to understanding and developing the mechanisms can emerge only after the nature and scope of the mechanisms has been defined. If a Party has proposed a definition on an item, such proposal, for the purpose of finding placement in the consolidated text, can be included only in the relevant portion of the three parts, namely, Article 6, 12 and 17. (ii) 'Assigned amount unit' is not recognized in the Protocol. There is no scope for a definition. The term recognized in the Protocol is 'part of an assigned amount'. (iii) While the Protocol recognizes "emission reduction units" in the context of Article 6, it does not recognize assigned amount units. Also, while the Protocol refers to "certified emission reductions", it does not mention: certified emission reduction units. Hence, there can be no definition of certified emission reduction units in the draft text.)

PART TWO

ARTICLE 6 PROJECTS

I. NATURE AND SCOPE

[4][A. Purpose

19. (24) "For the purpose of meeting its commitments under Article 3, any Party included in Annex I may transfer to, or acquire from, any other such Party emission reduction units resulting from projects aimed at reducing anthropogenic emissions by sources or enhancing anthropogenic removals by sinks of greenhouse gases in any sector of the economy, provided that:

(a) Any such project has the approval of the Parties involved;

(b) Any such project provides a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur;

(c) It does not acquire any emission reduction units if it is not in compliance with its obligations under Articles 5 and 7;

(d) The acquisition of emission reduction units shall be supplemental to domestic actions for the purposes of meeting commitments under Article 3."[1.13]

20. (25) Any emission reduction units which a Party acquires from another Party in accordance with the provisions of Article 6 shall be added to the assigned amount for the acquiring Party[10.11]. Any emission reduction units which a Party transfers to another Party in accordance with the provisions of Article 6 shall be subtracted from the assigned amount for the transferring Party[10.11].][4]

[4][B. Principles

21. (26) In their actions to achieve the purpose of Article 6, the Parties shall be guided [by Article 3 of the Convention and[10.31]][18], *inter alia*, by the following considerations[10]:

(a) Equity: Equity[3.13] between [10][developed and developing country][10] Parties[13] [10][, including equity with respect to per capita greenhouse gas emissions, wherein developed countries must contract greenhouse gas emissions per capita and developing countries coming on a converging path[13], so as to avoid perpetuating existing inequities between Parties included in Annex I and developing country Parties[13.31]][10];

(Note: Please see note at the end of section B.)

(b) Climate change effectiveness: Climate change effectiveness must be in terms of real, measurable and long-term benefits related to mitigation of climate change[10,11,13,31];

(c) Transparency[11,31];

(d) Cost-effectiveness: In accordance with the principle of cost-effectiveness global benefits are to be achieved at the lowest cost[4,10];

(e) Additionality[31] in accordance with Article 6, paragraph 1 (b)[2];

(f) Fungibility/Non-fungibility[2]: Option 1: There is no fungibility [among the three mechanisms of the Protocol[6,31]] [between ERUs and assigned amount[13]];

Option 2: Acquired AAUs, ERUs and CERs can be used to fulfil a Party's own obligations or be the object of further trade[19,24].

Option 3: Parties may exchange AAUs, ERUs and CERs once the COP/MOP has elaborated rules and procedures to ensure their effective environmental equivalence through, for example, establishing exchange rates or discounting mechanisms that aim to preserve the environmental effectiveness of developed country Parties' Article 3 commitments.[3]

(g) Limitation and reduction of emissions through Article 6 projects cannot lead to the creation or bestowal of any title, holding, entitlement, goods, commodity or proprietorial facility of any nature[13];

(h) Equal treatment of Article 6 and Article 12 projects. Article 6 projects must meet the conditions of CDM projects for ensuring real, measurable and long-term benefits related to the mitigation of climate change at the project level[13,31].][4]

(India requested that the following "must be reflected in the Chairmen's text":

** "Any decision by the COP/MOP on Article 6 projects must be a separate decision. The nature and scope of Article 6 projects are different from the other mechanisms."*

** "Unlike the other mechanisms, Article 6 provides the only mechanism for project based activity between developed country Parties. The Protocol provides for emission reductions resulting from Article 6 projects to be transferred between developed country Parties as emission reduction units, but the Protocol does not provide for transfers of emission reductions, i.e., the certified emission reductions, resulting from CDM project activity funded by developed countries in developing countries. The ERUs and the assigned amount are unlike concepts. The assigned amount of emissions is the emission commitment for the commitment period."*

** "The principles related to the nature and scope of Article 6 projects must guide and direct the methodological and operational issues pertaining to project activity and the institutional issues."*

** On equity: "It must be ensured that Article 6 projects do not have dormant any possibility or potential of freezing or perpetuating past and present inequities between developed and developing countries. The right to development of developing countries must not be affected adversely in any way. Equity relates to equitable emission entitlements. Developed countries must contract greenhouse gas emissions to reduced levels with per capita emission levels in developed and developing countries coming on a converging path. The per capita criterion is central to the determination of emission entitlements. Per capita emission levels provide a direct measure of human welfare for economic and social development and poverty eradication in developing countries." With the aforementioned insertion, the present portion attributed to India in para. 21 (a) on equity may be deleted.*

** "All the rigours and conditions of CDM project activity for ensuring real, measurable and long-term benefits related to the mitigation of climate change at the project level must apply to Article 6 projects".)*

C. Supplementarity

Limits on acquisitions

22. (27) Option 1: No elaboration of the term "supplemental"[4].

Option 2: Parties included in Annex I shall not fulfil their obligations under Article 3 primarily through extraterritorial means. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission reduction and limitation commitment[3].

Option 3 (i): Net acquisitions by a Party included in Annex I for all three mechanisms together must not exceed the higher of the following alternatives:

(a) 5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5')[10];

(b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount[10].

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process under Article 8[10].

Option 3 (ii): The overall 'cap' on the use of the three mechanisms should not exceed 25-30 per cent as a maximum[20].

Option 4: Access to Article 6 by a Party included in Annex I is contingent on [domestic policies and measures being the main means of achieving its quantified emission limitation and reduction commitments under Article 3[13]] [achieving a level of 40 per cent through domestic actions[31]]. A quantified ceiling on the emissions limited and reduced through the mechanisms shall be defined[13]. The ceiling for the acquisition of ERUs by Parties included in Annex I shall be fixed at 20 per cent[31]. Commensurate non-compliance processes must be prescribed[13].

[4][Limits on transfers

23. Option 1: Parties included in Annex I shall not fulfil their obligations under Article 3 primarily through extraterritorial means. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission reduction and limitation commitment[3].

Option 2 (i): Net transfers by a Party included in Annex I for all three mechanisms together must not exceed:

5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5')[10].

However, the ceiling on net transfers can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8[10].

Option 2 (ii): The overall 'cap' on the use of the three mechanisms should not exceed 25-30 per cent as a maximum[20].

Option 3: Access to Article 6 by a Party included in Annex I is contingent on [domestic policies and measures being the main means of achieving its quantified emission limitation and reduction commitments under Article 3[13]] [achieving a level of 40 per cent through domestic actions[31]]. A quantified ceiling on the emissions limited and reduced through the mechanisms shall be defined[13]. Commensurate non-compliance processes must be prescribed[13]].[4]

D. Participation

24. (29) Option 1: A Party included in Annex I that is found not to[4]:

(a) Be in compliance with its obligations under Articles 5 and 7 may not acquire any ERUs resulting from projects under Article 6[4];

(b) Be maintaining accordance with the provisions of these guidelines may not transfer or acquire ERUs resulting from projects under Article 6[4];

(c) Have achieved sufficient emission reductions through domestic policies and measures shall have its right to access Article 6 projects suspended[3,13];

Option 2: Parties included in Annex I shall only transfer or acquire ERUs from a project under Article 6, if they:

(a) Have ratified the Protocol[10,31];

(b) Are bound by a compliance regime adopted by the COP/MOP[10,13];

(c) Have not been excluded from participation in Article 6 according to the procedures and mechanisms under the compliance regime[10,13];

(d) Are in compliance with their commitments under Article 12 of the Convention[10,13];

(e) Comply with Articles [10][2,[18]][10] 5[18] and 7[18];

(f) Have achieved sufficient emission reductions through domestic policies and measures[3,13].

25. If, in addition to the provisions of Article 6, paragraph 1 (c) or 4, a Party included in Annex I may or shall lose its eligibility to participate in the mechanisms when it is in non-compliance with all or specified provisions of Articles 5 and/or 7, a Party included in

Annex I also shall lose its eligibility to participate in the mechanisms when it is in non-compliance with any provision of Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, or 11[20].

26. If, in addition to the provisions of Article 6, paragraph 1 (c) or 4, a Party included in Annex I may or shall lose its eligibility to participate in the mechanisms when it is in non-compliance with all or specified provisions of guidelines or modalities established, or with other decisions taken, by the COP/MOP pursuant to Articles 5 and/or 7, a Party included in Annex I also shall lose its eligibility to participate in the mechanisms when it is in non-compliance with any guideline, modality, rule or principle established, or decision or other action taken, by the COP/MOP pursuant to Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, 6, 11 or 12 or any principle, modality, rule or guideline established by the COP pursuant to Article 17[20].

27. (45) [10][A Party operating under Article 4 [may[4,22]] [may not[4]] [acquire[4]][transfer[4]] any ERUs resulting from projects under Article 6 if another Party operating under the same Article 4 agreement, or if a regional economic integration organization to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7[4].][10]][4]

28. (30) A Party included in Annex I may develop domestic[4] rules or guidance to augment international rules[4] for the participation of that Party, and of legal entities resident in that Party, in projects under Article 6[4,18], [resulting from specific economic and social conditions of the Party in question[18]][4] and shall approve the participation of legal entities in an Article 6 project[3,4,10,18,2]. Participation of legal entities in Article 6 projects does not affect the responsibility of Parties included in Annex I for the fulfilment of their commitments under the Protocol[4,10,18].

[4,10,18][E. Share of proceeds

29. (33) A share of proceeds shall be used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation[3,5,7,8,17,21,25,26,31].

30. The share of proceeds to assist in meeting adaptation costs shall be the same as for the provisions in Article 12, paragraph 8[7].][4,10,18]

II. METHODOLOGICAL AND OPERATIONAL ISSUES

[4][A. Project approval/validation

31. (34) A project under Article 6 shall:

(a) Provide a reduction in emissions of one or more gases listed in Annex A of the Protocol by sources listed in Annex A of the Protocol, or an enhancement of removals by sinks, that is additional to any that would otherwise occur[4,18]. [10][Enhancement of removals by sinks covers activities included in Article 3, paragraph 3, and any additional activities under Article 3, paragraph 4[4]][10];

(b) Cover, as a priority, the sectors of combustion[18,31], industry, energy raw material processing and transportation[18,31], transport[18,31], new and renewable energy[31], and municipal management[18].

32. (35) Option 1: A project under Article 6 shall be approved by the Parties involved[4,31]. A Party may develop its own internal mechanisms and criteria for project approval based on its domestic circumstances[4].

Option 2: Independent entities shall [validate[10]] [approve[18]] the project upon request of a project participant[10] and verify that it complies with relevant guidelines and principles[18]. A project needs to be validated before emission reductions resulting from that project may be certified[10]. A project shall be validated only if it meets the following requirements:

(a) The project has the approval of the Parties involved[10,18,24], as indicated in statements of project, approval submitted to the secretariat[24];

(b) All legal entities authorized under Article 6, paragraph 3, which are involved in the project shall demonstrate that they are entitled to participate in Article 6 projects[10];

(c) An [agreed[24]] baseline for the project shall be determined[10,24] and submitted to the independent entity by the project participants[10], in accordance with appendix A[10,24]. The environmental additionality of the project shall be calculated on the basis of this baseline[10,31]. It must be demonstrated that the emission reductions from the project are real, measurable and long-term and that the emissions occurring with the project are lower than the emissions that would have occurred in the absence of the project[10].

(d) A monitoring protocol shall be approved by the Parties involved[24] containing information on procedures for accurate, systematic and periodic monitoring of the project in accordance with appendix B[10]. This shall be provided to the independent entity[10].

Independent entities shall publish their decisions on the validation of projects in a suitable manner[10].

33. (36) [10][A project under the activities implemented jointly (AIJ) pilot phase will be eligible to be pursued as a project under Article 6 if the project meets the criteria established in these guidelines, and if the Parties involved in the project agree that it should be considered as an Article 6 project[4].][10]

34. (37) [10][Implementation of projects provided for in Article 6 should be commenced at the same time as CDM projects, on completion of the AIJ pilot phase but no later than after the first session of the COP/MOP[18].][10]][4]

[4][B. Project monitoring

35. Independent entities shall perform periodic and technical monitoring of projects[31].

36. (38bis)[10][Monitoring data [reported to the secretariat[2]] shall demonstrate that:

(a) The project has resulted in additional emission reductions by sources, or an additional enhancement of removals by sinks[10];

(b) These emission reductions or enhancements of removals by sinks are real, measurable and long-term[10].][10]][4]

37. The provision and installation of measuring equipment should be envisaged during the project preparatory phase[18].

[4][C. Project verification

38. (39) Periodic reviews of project implementation should be carried out by expert teams appointed by the COP[18].

39. The information submitted on Article 6 projects by Parties to the secretariat under Article 6/7 shall be reviewed in accordance with Article 6/8[4].

40. A review process will be established under Article 6/8 to review Article 6 projects and the reduction in greenhouse gas emissions by sources and/or enhancement of removals by sinks from such projects[4].

41. Verification shall be carried out by independent entities[31].

42. (40) Verification should be carried out on two levels by[18]:

(a) The donor and recipient country[18]; and[3]

(b) The COP/MOP, or by an independent[3] body established by the COP/MOP, in order to verify all of the mechanisms[18].][4]

43. A Party participating in an Article 6 project may develop its own internal mechanisms for verifying a reduction in emissions by sources or an enhancement of removals by sinks[4].

[4][D. Certification/issuance of ERUs

44. (41) Option 1: The emission reductions or enhancements of removals by sinks for a project may be verified in accordance with the internal mechanisms developed by the Party in which the project site is located[4].

45. Option 2: Independent entities shall certify the emission reductions[31] resulting from a validated project upon request of a project participant[10]. Additional emission reductions resulting from a project shall be calculated on the basis of the baseline submitted to the independent entity in the course of the validation of the project[10]. They shall be certified after they have occurred, only if:

(a) A participant in the project applies for the certification of the emission reductions resulting from the project during a specific period of time[10];

(b) The project has been validated and continues to meet the requirements for project validation[10]; and

(c) All Parties involved are entitled to participate in Article 6 projects[10].

The independent entity shall inform the applicant of its decision in writing immediately after the completion of the certification process[10]. Independent entities shall publish their decisions on the certification of emission reductions in a suitable manner[10].

46. The Party in which the project site is located shall issue ERUs based on the emission reductions or enhancement of removals by sinks and transfer them to Parties and/or entities participating in the project[4]. ERUs shall be distributed among the project participants according to their agreement[4,31].

47. (42) Issued certificates shall contain the following information and data:

(a) The project, project type[3] and the project participants, including the Parties involved[10];

(b) The number of ERUs that have resulted from the project, their year of issue, certifying entity[13] and serial numbers[10].][4]

[4][E. Issues related to compliance

48. (43bis) Information related to projects undertaken under Article 6 and reported under Article 7 [will be subject to the expert review process under Article 8[24]] [reviewed in accordance with Article 6/8 and its guidelines and made public by the secretariat[4]].[4]

49. (44) Option 1: If a question of implementation by a Party included in Annex I of the requirements referred to in Article 6 is identified in accordance with the relevant provisions of Article 8, transfers and acquisitions of emission reduction units may continue to be made after the question has been identified, provided that any such units may not be used by a Party to meet its commitments under Article 3 until any issue of compliance is resolved[1].

Option 2: Any Party that is not in compliance with Article 6 may only transfer ERUs from a given project if the design of the project, including the definition of the baseline, has been validated and the ERUs generated have been certified by an independent third party in accordance with any guidelines issued by the COP/MOP[24].

50. (44bis) If a Party's consistency with the requirements of Article 6 is called into question [by the review process under Article 8[4]] [by other means[4]], the issue will be expeditiously resolved [through a general procedure applicable to the Protocol[4]] [through a specialized procedure[4]][4,10].

51. If, in addition to the provisions of Article 6, paragraph 1(c) or 4, a Party included in Annex I may or shall lose its eligibility to participate in the mechanisms when it is in non-compliance with all or specified provisions of Articles 5 and/or 7, a Party included in Annex I also shall lose its eligibility to participate in the mechanisms when it is in non-compliance with any provision of Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, or 11[20].

52. If, in addition to the provisions of Article 6, paragraph 1(c) or 4, a Party included in Annex I may or shall lose its eligibility to participate in the mechanisms when it is in non-compliance with all or specified provisions of guidelines or modalities established, or with other decisions taken, by the COP/MOP pursuant to Articles 5 and/or 7, a Party included in Annex I also shall lose its eligibility to participate in the mechanisms when it is in non-compliance with any guideline, modality, rule or principle established, or decision or other action taken, by the COP/MOP pursuant to Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, 6, 11 or 12 or any principle, modality, rule or guideline established by the COP pursuant to Article 17[20].

F. Registries

53. Registries shall be established and maintained in accordance with appendix C[2].

G. Reporting by Parties

54. (38) The reporting process under Article 6 should be based on guidelines [developed by the Convention bodies and as adopted by the COP[18]] [contained in appendix B[2]].

55. (53) Each Party included in Annex I shall report annually, using the reporting format contained in appendix B, on its projects under Article 6 within the framework of its reporting commitments under [Article 6[4]] [Article 7, paragraphs 1 and 2[4,10,24]], including[4]:

(a) The baseline as agreed between the Parties involved[4];

(b) The calculation of the reduction in greenhouse gas emissions by sources or the enhancement of removals by sinks for the year[4];

(c) Transfers and acquisitions of emission reduction units during the year, including for each unit, the serial number and the Party's registry to which it was transferred or from which it was acquired[4, 24]; and

(d) Any emission reduction units (identified by serial number) that have been retired that year[4].

56. Parties whose legal entities are involved in transfers shall also provide information on the entities involved[3,24].

57. (54) [10][Reporting on these projects under Article 7, paragraph 2, shall be in accordance with the uniform reporting format, which shall be an integral part of the guidelines developed under Article 7, paragraph 4[24].][10]

III. INSTITUTIONAL ISSUES

58. (56) [10][The COP/MOP shall:

(a) Serve as the supreme body of the global framework established under the Protocol[3];

(b) Define the roles of verification, certification[3] and auditing entities, including private sector entities[22];

(c) Issue guidelines for reporting by Parties on projects under Article 6[24];

(d) Issue guidelines for the certification of ERUs by an independent third party for cases where a Party is not in compliance with Article 6 but wishes to transfer ERUs from a validated project[24];

(e) Issue guidelines for comparable methodologies for baseline determination[24];

(f) Acknowledge the compliance of a Party with the Protocol, in particular the obligations provided by Articles 2, 5 and 7[18];

(g) Approve the results of an Article 6 project before credits can be transferred[18].][10]

59. (57) The COP/MOP shall review the guidelines governing [Article 6 projects[2]] [the joint implementation[10]], with the first review to be carried out no later than the year [4][2012][4].[10] Further reviews shall be carried out periodically thereafter[10]. Any revision of guidelines shall take effect in the commitment periods subsequent to that of their adoption.[10]

60. (58) [10][[Independent entities[10]] [operating authorities[18]] shall:

(a) Be institutionally and economically independent from, and not entitled to participate in, the identification, development or financing of Article 6 projects[10];

(b) Have their decisions on Article 6 projects [approved][3] by the executive board of the CDM[18].][10]

(Parties may wish to consider criteria and procedures regarding the involvement of independent entities under Article 6, in particular whether elements dealt with under accreditation for operational entities under the CDM shall be relevant.)

APPENDICES TO PART TWO: ARTICLE 6 PROJECTS

A. Baselines

61. Project-specific baselines shall consist of the following elements[4]:

(a) The historic data set and/or a projection of future trends[4];

(b) The specific geographic area used as the reference case (e.g. sub-national, national, regional group of countries, global)[4];

(c) The project lifetime (i.e. time period during which ERUs may accrue)[4];

(d) Whether the baseline is static or dynamic (i.e. whether or not the baseline is designed to reflect trends or will be adjusted over time)[4];

(e) The interval between updates and revisions of the baseline, if necessary[4];

(f) How the baseline addresses potential project[2] boundary issues[4]; and

(g) Inclusion of sufficient information to identify, and make fully transparent, all assumptions made that may affect the baseline[4].

62. Multi-project baselines shall include the following elements[4]:

(a) The level of aggregation (e.g. sector, sub-sector, technology)[4];

(b) The historic data set and/or a projection of future trends[4];

(c) The specific geographic area covered by the baseline (e.g. sub-national, national, regional group of countries, global)[4];

(d) Whether the baseline is static or dynamic (i.e. whether or not the baseline is designed to reflect trends or will be adjusted over time)[4];

(e) The interval between updates and revisions of the baseline, if necessary[4];

(f) How the baseline addresses potential project[2] boundary issues; and[4]

(g) Inclusion of sufficient information to identify, and make fully transparent, all assumptions made that may affect the baseline[4].

APPENDICES TO PART TWO: ARTICLE 6 PROJECTS

B. Monitoring, reporting, verification and certification/issuance of ERUs

REPORTING

63. Option 1: (Reporting format)[4].

Option 2: Reporting format for Article 6 projects

(a) A letter from the designated point of contact in [each Party involved] [the host Party] indicating formal acceptance of the proposed project[2];

(b) Goal and context of the project[10,24]

(c) Description of the project[10,24]
- (i) Project purpose and project[2] boundaries[10,24]
- (ii) Technical description of the [project[2]] [system to be adopted[10,24]]
- (iii) Information regarding project location and its region[10,24]
- (iv) Key drivers affecting future developments[10,24]

(d) [Estimate of the baseline[10,24]] [Proposed baseline methodology[2]]
- (i) Description of the baseline [agreed[4]] [method] [calculation methodology[2]] chosen[10,24];
- (ii) Justification indicating that the proposed baseline methodology is appropriate[2,10];
- (iii) Justification of [proposed[2]] crediting [time] [period[2]][10,24];
- (iv) The estimated project lifetime[4];
- (v) Any other information required to make fully transparent the application of the approved [standardized] [multi-project] baseline to the specific project[2].
- (vi) Description of key [factors] [parameters and assumptions[2]] used in baseline estimate[10,24]
- (vii) Data sources to be used to calculate the baseline emissions, such as historic data on emissions, variables and parameters used[2]
- (viii) Historic emissions for the activity[2]
- (ix) [Calculation of baseline estimate[10,24]] [Projection of baseline emissions and emissions reduction by year over the life of the project[2]]
- (x) Sensitivity analyses[10]

(xi) Uncertainties[10,24] in a quantitative manner[10]
- data
- assumptions
- key factors
- other

(xii) Strengths and weaknesses of the proposed baseline methodology[10]

(e) Conclusions on the proposed baseline [estimate] [methodology[2]][10,24]

(f) The calculation of the reduction in greenhouse gas emissions by sources or the enhancement of removals by sinks for the year[4]

(g) Monitoring plan[2]

(i) Option 1: Description of the project activity and the type[10];

(ii) Description of the information/data to be collected in order to calculate the emissions reduced or removed[10],

(iii) Description of the methodology used to calculate the emissions reduced or removed, including any relevant emissions factors and their source, and the frequency of any monitoring or information/data collecting procedures used[10];

(iv) Description of backup monitoring procedures should the proposed procedures; fail;[10]

(v) Description of procedures for documentation of monitoring results[10].

(i) Option 2: Relevant project performance indicators both within and outside the project boundary[2]

(ii) Data needed for the project performance indicators and assessment of data quality[2]

(iii) Methods to be used for data collection and monitoring[2]

(iv) Assessment of the precision, accuracy and reliability of the proposed monitoring method[2]

(v) Quality assurance and quality control provisions for the monitoring method, recording and reporting[2]

(vi) Description of how monitored data will be used to calculate the emissions reduced [or removed][2]

(h) References[10,24]

APPENDICES TO PART TWO: ARTICLE 6 PROJECTS

C. Registries

64. Option 1: Each Party [included in Annex I, with an emission limitation or reduction commitment inscribed in Annex B[4]] [included in Annex B[10]], shall establish and maintain a national registry[4,10] to ensure the accurate accounting of [initial[10]] assigned amount and track [changes to the Party's assigned amount[4]] [adjustments to it resulting from transfers and acquisitions of ERUs, CERs and AAUs[10]] [issuance, transfers, acquisitions and retirement of ERUs, CERs and AAUs[2]][4,10] to assist in determining that Party's compliance with its Article 3 commitments[10]. In addition, the secretariat shall hold a computerized central registry for the purposes of retiring assigned amount[10].

Option 2: A central registry shall be established with the aim of tracking the generation, transfer and retirement of ERUs, CERs and AAUs transferred under the mechanisms[3].

65. National registries shall be guided by transparency, integrity and consistency, where[10]:

(a) 'Transparency' relates to the need to ensure that Parties will allow public scrutiny of their registries, in a clear and comprehensive way, in order to facilitate trades, increase market efficiency, and ensure proper supervision and monitoring[10];

(b) 'Integrity' relates to the need to ensure that all transfers having an impact on the Parties' assigned amount are reflected in their registries, and that no relevant information goes unreported[10]; and

(c) 'Consistency' regards the need to ensure that all national registries will meet basic requirements, so that tracking and monitoring of ERUs, CERs and AAUs is facilitated and assured[10].

66. Each Party shall identify an organization (government or private) to maintain the Party's national registry on behalf of the Party and perform the necessary functions (the registry 'administrator')[4].

67. Registries shall contain the relevant publicly accessible minimum data elements, described in annex Y of this appendix[4].

68. Registries shall be kept in the form of [computer databases[4,19]] [a computer accounting system[10]][2]. Each ERU shall be held in an account in a registry[2]. The design of registries shall be compatible [and trades will be recorded in a standardized electronic format[10]] so that transactions can occur [instantaneously[4]] [in near real time (maximum one working day)[10]], and so that each ERU is only held in one account and in one national registry[4,10]. The format of these computer databases shall conform to the guidelines contained in annex W *[to be*

elaborated at a future date} of this appendix and shall accommodate the holding of ERUs, CERs and AAUs within the national registry[4].

69. (175) [10][Any two or more Parties may voluntarily maintain their registries in a consolidated system, within which each registry would remain legally distinct[4].][10]

70. AAUs shall be serialized at the time that a Party's assigned amount, pursuant to Article 3, paragraphs 3, 4 and 7, is issued into its national registry in accordance with the guidelines detailed in annex X *{to be elaborated at a future date}* of this appendix[4].

71. Serial numbers shall ensure that each AAU is unique[4,10] and shall be constructed in accordance with section B in annex Y of this appendix[2].

72. Each account shall contain information in accordance with section A of annex Y of this appendix[2].

73. For activities under Article 6, a Party included in Annex I with a quantified emission reduction or limitation commitment inscribed in Annex B may transfer ERUs from its assigned amount[4].

74. Upon direction of the host Party as to which AAUs will be transferred as ERUs as a result of a project, the administrator of the host Party's national registry shall transfer ERUs by the following procedure[4]:

(a) The registry administrator shall assign a Project Identifier[4], which is unique when combined with the country of origin[4];

(b) The registry administrator shall store the relevant project information, identified in annex Y of this appendix, in the host Party's national registry[4];

(c) The registry administrator shall tag each of the AAUs to be transferred as ERUs with the project identifier and transfer the resulting ERUs based on the distribution agreement between the project participants, as provided by the host Party[4]; and

(d) The ERU transfer shall result in a change of holdings in the appropriate accounts (a debit (-) of AAUs in one account(s) and a credit (+) of ERUs in the other(s))[4].

75. (48) [10,18][ERUs transferred or acquired during the period from the year 2000 up to the beginning of the first commitment period shall be accounted for according to Article 3, paragraphs 10 and 11 respectively[24].][10,18]

76. Where a Party included in Annex B elects to authorize domestic legal entities to hold ERUs in the Party's national registry, each such holder of ERUs shall be required to have a

separate account within its national registry[4]. However, each unit shall be registered in only one account in one national registry[10].

77. Transfers or acquisitions between Parties shall result in the removal of units from one Party's national registry into that of another[10].

78. A record of all transactions involving an account established in a given national registry shall be kept in the national registry[10] in accordance with section C of annex Y of this appendix[2]. Information concerning the date of every transfer from an issuing Party's national registry, should be attached to every [AAU[10]] [ERU[2]] transferred from the issuing Party's registry[10].

(Note: The European Union et al. note that the necessity of date information depends on the specific liability rules adopted.)

79. [Each national registry of a Party included in Annex B shall include a dedicated retirement account for each commitment period to identify the ERUs, CERs and AAUs used by the Party for the purposes of demonstrating compliance with their Article 3, paragraph 1, obligations[4].] [In addition to national registries, the secretariat shall hold a computerized central registry[10]. A retirement account for each Party included in Annex I should be established in this central registry[10].] Parties shall retire ERUs, CERs and AAUs into this account to cover their emissions for the purpose of compliance with their commitments under Article 3[4,10]. Such units cannot be further traded[4,10].

80. The expert review under Article 8 shall review the safety and integrity of national registry systems[10]. Safety and integrity of the national registries system shall be provided for through specific provisions controlling the implementation of relevant provisions in this appendix[10].

Annex Y[4]

PUBLICLY ACCESSIBLE INFORMATION FROM A PARTY'S NATIONAL REGISTRY[4]

I. MINIMUM DATA ELEMENTS IN A PARTY'S REGISTRY[4]

81. Except where noted, the following data elements shall be stored in a Party's national registry[4].

A. Account information[4]

(Note: Australia et al. observe that, at a minimum for each Party's registry, this would include an account containing the Party's serialized assigned amount and a retirement account for each commitment period to hold assigned amount which is retired to demonstrate compliance with the Party's Article 3.1 commitment. In addition, where an Annex B Party authorizes legal entities to hold assigned amount in their national registry, the assigned amount must be reflected in an account established within the national registry for each assigned amount holder.)

82. The name of each account in the registry[4.10]. This corresponds to the following field of data in the relational database: account name[4].

83. The number of each account[4]. A unique number would be assigned to identify each account and in which registry the account is held[4]. Where appropriate, the account number would use the two-letter codes (ISO 3166) defined and maintained by the International Organization for Standardization[4]. Account numbers would begin with the code identifying in which registry the account is held and be followed by a number, unique when combined with the registry code (e.g. Account number US-1009)[4]. This corresponds to the following field of data in the relational database: account number[4].

84. The type of each account[4]. This would identify the type of account (e.g. retirement account)[4]. For retirement accounts, the compliance period, for which units held in the account are being used, would also be identified[4]. This corresponds to the following fields of data in the relational database: account type, compliance period[4].

85. The representative for each account[4.10]. This would identify the individual person representing the government, or where applicable, the legal entity holder of the account[4]. The first and last representative name would be identified[4]. This corresponds to the following field of data in the relational database: representative name[4].

86. An identification number for each account representative[4]. A unique number would be assigned to identify each account representative and in which registry the representative holds an account(s)[4]. This corresponds to the following field of data in the relational database: representative identification number[4].

87. Contact information for the account representative[4,10]. This would include the mailing address, phone number, fax number and/or email address of the account representative[4,10]. This corresponds to the following fields of data in the relational database: representative mailing address, phone, fax and email[4].

B. Assigned amount information[4]

(Note: Australia et al. observe that this would include the entire assigned amount held in each account, represented as serialized units. Each serial number would be unique and identify the commitment period for which the unit was issued, the country of origin (e.g. 1-US-765034) and, where applicable, the project identifier. Serial numbers could be stored in a block, represented by start and end numbers (e.g. 1-NZ-000245-000978). For ease of data management in a database format, it would be useful to store these pieces making up the serialized unit in separate fields (i.e. associated commitment period, country of origin, starting serial number, ending serial number, and project identifier).)

Option 1:

88. The commitment period associated with each block of assigned amount[4]. This commitment period code should be a number which identifies the commitment period for which the unit or block of serial numbers is issued (e.g. the first commitment period, 2008-2012, would be identified by '1')[4]. This corresponds to the following field of data in the relational database: associated commitment period[4].

89. The country of origin[4]. For units issued by an Party included in Annex B (pursuant to Article 3, paragraphs 3, 4 and 7, including when subsequently transferred under Article 6), the country of origin would be the Party of issuance included in Annex B[4]. The country of origin code shall be the two-letter code (ISO 3166) defined and maintained by the International Organization for Standardization[4]. This corresponds to the following field of data in the relational database: country of origin[4].

90. The numerical starting serial number and ending serial number for the block of assigned amount[4]. For a single unit, the starting and ending serial number will be the same[4]. This corresponds to the following fields of data in the relational database: starting serial number, ending serial number[4].

91. A code identifying the project for which the ERUs are transferred[4]. For each transfers of ERUs pursuant to Article 6, the host Party will create a numerical project identifier associated

with the transferred units[4]. Units transferred at a later date, but from the same project, will have a different project identifier[4]. This project identifier code will be a unique number when combined with the country of origin code[4]. This corresponds to the following field of data in the relational database: project identifier[4].

Option 2:

92. The serial number shall be constructed so that the first field identifies the Party of origin, the second field identifies the relevant commitment period, and the third field identifies the ERU[10]. All ERUs shall have the final suffix number "1" to distinguish them from CERs and AAUs[10].

(The European Union et al. note that the Party identifier, contained in the first field, could be attributed to each Party according to the order in Annex B of the Protocol.)

C. Transaction information[4]

(Note: Australia et al. observe that transactions include the following activities: issuance of assigned amount pursuant to Articles 3.3, 3.4, and 3.7, and movement of assigned amount from one account to another within a registry or between registries (including transfer as a result of a JI project and movement of units into the retirement account in order to demonstrate compliance with a Party's Article 3.1 commitment).)

93. A unique transaction number[4]. Each transaction in a registry would be assigned a unique transaction number[4]. This corresponds to the following field of data in the relational database: transaction number[4].

94. A code identifying the type of transaction[4]. Each transaction would be assigned a transaction type[4]. For example, a code 'IA' would indicate issuance of initial assigned amount; a code 'IS' would indicate issuance of assigned amount based on activities under Article 3, paragraphs 3 and 4; a code 'JI' would indicate initial transfer pursuant to Article 6; and a code 'RT' would indicate a transfer into the retirement account[4]. This corresponds to the following field of data in the relational database: transaction type[4].

95. The date of the transaction[4]. The date of each transaction would be stored[4]. This corresponds to the following field of data in the relational database: transaction date[4].

96. The accounts involved in the transaction[4]. For each transaction, the transferor and transferee account numbers would be stored[4]. This corresponds to the following fields of data in the relational database: transferor account number and transferee account number[4].

97. The status of the transaction[4]. For each transaction a code shall be stored indicating whether the transaction is pending or whether the receiving registry/account has accepted or

rejected the transfer[4]. This corresponds to the following field of data in the relational database: transaction status[4].

D. Article 6 project information[4]

(Note: Australia et al. observe that registries must include the following information for any JI projects for which ERUs are transferred pursuant to Article 6.)

98. The name of the project[4]. This corresponds to the following field of data in the relational database: project name[4].

99. The location of the project[4]. This corresponds to the following field of data in the relational database: project location[4].

100. The year of transfer of ERUs from the projects[4]. This is the year that the host Party transferred assigned amount pursuant to Article 6[4]. Note that each year of transfer of units from the project would receive a new project identifier[4]. This corresponds to the following field of data in the relational database: year of transfer[4].

101. An internet address where the project report can be downloaded[4]. For each transfer of units pursuant to Article 6, the host Party shall store the uniform resource locator (URL) address where the project report can be downloaded[4]. This corresponds to the following field of data in the relational database: report link[4].

II. PUBLIC ACCESSIBILITY[4]

102. Option 1: Each registry shall provide a publicly accessible user interface that allows interested persons to query and view non-confidential information contained within the registry[4]. A registry containing the minimum elements outlined in this annex should allow interested persons to retrieve a variety of reports, including, but not limited to, the following[4]:

(a) A list of initial assigned amount issued as AAUs by a Party included in Annex B pursuant to Article 3, paragraph 7[4];

(b) The current account balance and holdings of account holders within the registry[4];

(c) The quantity of active (i.e. non-retired) ERUs and AAUs within a registry[4];

(d) A list of ERUs[4], CERs[4] and AAUs[4] retired for compliance purposes for each commitment period[4]; and

(e) A list of any changes, and reasons for the changes, to a Party's holdings of ERUs and AAUs[4].

Option 2: The registry - including account holdings and name, address and identity of named representatives of accounts - shall be publicly accessible[10].

103. Parties shall be responsible for providing basic information on how to use their national registry system[10].

PART THREE

CLEAN DEVELOPMENT MECHANISM

I. NATURE AND SCOPE

[4][A. Purpose

Option 1:

104. (61) The [two-fold[13]] purpose of the CDM is:

(a) (a) To assist [Parties not included in Annex I] [developing country Parties[5]] in achieving sustainable development [thereby[13]] [and in[11,12,13,19,32]] contributing to the ultimate objective of the Convention[11,12,13,19,32]; and

(b) (b) To assist [Parties included in Annex I] [developed country Parties[5]] in achieving compliance with [part of[6]] their quantified emission limitation and reduction commitments under Article 3[11,12,13,19].

(India requested to add: "Each CDM project activity should meet the above two-fold purpose.")

105. The CDM should be helpful to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation by ensuring that a share of the proceeds of each project is assessed for this purpose[6].

Option 2:

106. (61) The purpose of the CDM is:

(a) (a) To assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention[7,11,12,13,19,32];

(b) (b) To assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3[7,11,12,13,19]; and

(c) (c) To assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation by ensuring that a share of the proceeds of each project is assessed for this purpose[3,7].

107. (62) "Any certified emission reductions which a Party acquires from another Party in accordance with the provisions of Article 12 shall be added to the assigned amount for the acquiring Party"[1,7,10,11].][4]

[4][B. Principles

108. (63) In their actions to achieve the purpose of the CDM, the Parties shall be guided by [Article 2 and[11]] Article 3 of the Convention and[11], *inter alia*, by the following considerations:

(a) (a) Nature and scope[11]:

(i) (i) The CDM is a project-based mechanism[6,7,11] conceived and introduced in the Protocol[7,11] with a two-fold purpose: (a) to assist developing country Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention, and, (b) to assist developed country Parties in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3[6,11]. Each CDM project activity should meet the above twofold purpose[13].

(Note: Please see note at the end of section B.)

(ii) Any CDM project shall be approved by, and implemented between, Parties included and not included in Annex I on a voluntary basis in accordance with Article 12[6]. Unlike the other mechanisms provided for in the Protocol, the CDM is the only mechanism of the Protocol which involves participation in CDM project activities by both the developed and developing country Parties[11].

(iii) (iii) Developed country Parties [will] [may[7]] fund projects in developing country Parties which will assist sustainable development[11], through project equity financing or by acquiring CERs[7]. Any CERs which a Party acquires from another Party in accordance with the provisions of Article 12 shall be added to the assigned amount for the acquiring Party[7].

(iv) (iv) Developed country Parties may involve private and/or public entities for such funding[11,13] in accordance with the terms of agreement between the participating developed and developing country Parties[13]. In return, the developed country Party funding the project will be enabled to meet part of its emission reduction commitment[11]. Designing and implementing projects under the CDM shall create opportunities for the private sector in the host country Party[32].

(Note: Please see note at the end of section B.)

(v) (v) The Protocol has made provision for certifying the emissions reduced from a CDM project[11]. Accordingly, "certified emission reductions" (CERs) will accrue[11]. The CERs will enable the participating developed country Party to contribute to compliance with part of its quantified emission limitation and reduction commitments under Article 3 to the extent permissible under the principle of "supplementarity" to be decided[11]. The emissions certified to be reduced in a CDM project activity funded by the developed country Party, and acquired by that Party in accordance with the terms of agreement with the developing country Party participating in the project, can be used to make up shortfalls in achieving emission commitments, subject to the principles of supplementarity[13]. The assigned amount is the emission commitment of developed country Parties[13]. The assigned amount for each Party included in Annex I of the Convention shall be equal to the percentage inscribed for it in Annex B of the Protocol of its aggregate carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A of the Protocol multiplied by five[13]. The Protocol does not provide for transfers of emission reductions resulting from a CDM project activity[13]. The emission reductions resulting from a CDM project activity in developing countries are not transferable[13]. The emissions certified to be reduced in a CDM project activity will be used by developed country Parties to meet part of their quantified emission limitation and reduction commitments in return for funding a CDM project in accordance with the terms of agreement between the participating developed and developing countries[13]. If the developed country Party emits less than its assigned amount, any certified emissions reduced which such developed country Party may have acquired may be used by that acquiring Party in the next commitment period[13]. Acquisition of certified emission reductions does not alter the assigned amount for the commitment period or any part of the assigned amount transferable under Article 17[13].

(Note: Please see note at the end of section B.)

(vi) The limitation and reduction of emissions through a CDM project activity cannot lead to the creation or bestowal of any title, holding, entitlement, goods, commodity or proprietorial facility of any nature[13].

(vii) (vi) It must be ensured that "a share of the proceeds from certified project activities" is used to meet costs of adaptation. For this purpose, *inter alia*, a CDM adaptation fund should be established.[11]

(viii) The special vulnerabilities and character of small island developing states shall be taken into account in all aspects of the design and operation of

the CDM, including the executive board and capacity-building process for adaptation activities and for implementation of CDM projects[5].

(b) (b) Equity: Equity relates to equitable emission entitlements on a per capita basis[13,31]. The matter should be viewed in the light of contraction and convergence of emissions, wherein developed countries must contract greenhouse gas emissions to reduced levels, with per capita emission levels in developed and developing countries coming on to a converging path[13]. Equal per capita emission levels is an equitable norm[13]. The per capita criterion is central to the determination of emission entitlements providing a direct measure of human welfare for economic and social development and poverty eradication[13]. The implementation of the CDM[6] should be based on equitable development rights[7,11], the sharing of mitigation cost surpluses from CDM projects between Parties included and not included in Annex I[6] and [, to the extent possible[7],] balanced regional activity[7,11,31], so as to not perpetuate existing inequities between developed and developing country Parties[13,31]. The right to development of developing countries should not be affected adversely in any way[11,32]. Projects under the CDM shall not increase the costs of reducing emissions in host country Parties in the long term[32].

(Note: Please see note at the end of section B.)

(c) (c) Climate change effectiveness: Climate change effectiveness must be in terms of real, measurable and long-term benefits related to the mitigation of climate change at the project level[7,11,13,18,31]. This should be addressed by taking into account the additional reduction in emissions at the CDM project level as against the baseline of the CDM project activity[7,11,31]. The benefits related to a project activity would be recognized as real if the actual greenhouse gas (GHG) emissions can be shown to be less than the project baseline[7,11]. The benefits would be recognized as measurable if the actual level of GHG emissions of the project and the level of GHG emissions in the project baseline can be established with a reasonable degree of certainty[7,11]. The benefits of a project activity would be recognized as long-term if the emission reduction persists over an appropriate period of time, taking into account the differences in the lifespans of different CDM project activities, and bearing in mind Article 2 of the Convention[7,11]. The system should not be afflicted with scientific uncertainties[13].

(d) Sustainable development[7,11,12,13,19,29,31] [priorities[11]]: Sustainable development priorities must be set by national [designated[7]] authorities[11]. The priorities depend upon the specific requirements of a developing country Party[11]. CDM project activities must contribute to sustainable development[11]. CDM project activities should not represent a long-term ecological debt to the host country Party[32]. The developing country Party where the CDM project activity is proposed to be set up shall be the sole judge for deciding whether that project activity meets its national sustainable development objectives and priorities[11,32]. The CDM

should also be oriented towards improving the quality of life of the very poor from the environmental standpoint[13].

(Note: Please see note at the end of section B.)

(e) (e) Financial additionality: Funding for a CDM project activity shall [be additional to[11,13]] [not result in a diversion of[4,10]] official development assistance (ODA), Global Environment Facility (GEF) and other financial commitments of the developed country Parties[11,13]. The CDM will entail transfer of technology and funds, but cannot be a substitute for developed country commitments relating to financial resources and transfer of technology contained in Article 4, paragraphs 3, 5 and 7, of the Convention[13].

(f) (f) Austerity and efficiency to minimize bureaucratic aspects[12];

(g) (g) Transparency: The principle of transparency must be observed in [7][the design and application[11,13]][7] of all CDM activities[11,15,31], including [7][project identification, design and implementation[11]; and][7] approval, [implementation[7],] certification, monitoring and verification, establishment of baselines, operations of the executive board, as well as regarding all costs, risks and liabilities to be incurred by the [developing country Party[11]] [Parties[7]][11].

(h) (i) Non-discrimination, prevention of distortion of competition [, inclusiveness and uniformity[22]]: All developing country Parties can participate in CDM project activities[7,11] on a voluntary basis[7]. No unilateral measures for CDM participation should preclude a developing country Party from participating in any CDM project activity[11,15]. No artificial barriers should be placed on participation of Parties in all CDM transactions and decision-making processes[22]. The application of the rules for verification and certification should be uniform for all the mechanisms[22].

(i) (j) Special needs of least developed countries: The special needs of least developed countries have to be addressed, from the point of view both of identifying their special technology needs and of capacity-building. The capacity-building effort should be in the direction of build-up of endogenous expertise for identifying technology needs and helping enhance capacities for assimilation of technology. Least developed country Parties need assistance to build up capacity in monitoring, reporting and verifying emissions; and in the selection, design and evaluation of CDM project activities.[11]

(j) (k) Transfer of [advanced[8]] technology[6,12,31] [needed by Parties not included in Annex I[8]] and financial resources to Parties not included in Annex I[12]. Eligible project activities, apart from meeting national sustainable development priorities, must ensure access to [13][environmentally sound][13] technology needed by the developing country Party participating in the CDM project activity[6,11]. Technology transfer in the CDM project shall be additional to Annex II Parties' commitments on technology transfer to developing country Parties under the Convention[6]. The special needs of developing country Parties have to be addressed for

identifying technology needs and helping enhance capacities for assimilation of technology[7].

(k) (l) Fungibility/non-fungibility:[2] Option 1: [There is no fungibility among the three mechanisms of the Protocol[6]. The concept of 'fungibility' among the three mechanisms of the Protocol is totally unacceptable[6]. CERs cannot be sold[6].] [There is no link between Article 12, Article 6 and Article 17[13,31]. The three articles are mutually exclusive[13].] [CERs may be acquired only by a Party included in Annex I to the Protocol[20] and they are not tradable or transferable to another Party[13,20].]

Option 2: [Acquired AAUs, ERUs and CERs can be used to fulfil a Party's own obligations or be the object of further trade[18,29].] [CERs, in principle, can be fungible with ERUs and AAUs. However, the use of CERs in emissions trading needs to be further discussed through the rule-making process for the CDM[19].]

Option 3: Parties may exchange parts of assigned amount, ERUs and CERs once the COP/MOP has elaborated rules and procedures to ensure their effective environmental equivalence through, for example, establishing exchange rates or discounting mechanisms that aim to preserve the environmental effectiveness of developed country Parties' Article 3 commitments[3].

(l) (m) Adaptation[7,11]: As provided for and listed in Article 4, paragraph 8, of the Convention, and Article 12, paragraph 8, of the Protocol, developing country Parties that are particularly vulnerable will be assisted to meet the costs of adaptation[7,11]. The COP/MOP shall ensure that a share of the proceeds from certified project activities is used to cover these costs[7,11]. For this purpose, *inter alia*, a CDM adaptation fund should be established[11]. The institutional and organizational aspects related to adaptation in the context of certified project activities require elaboration in detail[11]. Developing country Parties should identify adaptation projects for funding, and should follow a process of adaptation options identification[11]. Consideration of this aspect should be consistent with ongoing work on adaptation under the Convention[11]. Agricultural sustainability and food and nutrition vulnerability are of critical importance, requiring adaptation on a priority basis. Impact assessment and adaptation must be very closely coordinated. Impact assessment is a prerequisite for adaptation activity[13]. Activities to adapt to the adverse effects of climate change shall be country-driven and in conformity with the national strategies and priorities for the sustainable development of the developing country Party concerned[13]. Adaptation projects for funding should be consistent with the developing country Parties' national communications[7]. Developing country Parties should be assisted with capacity-building at all levels in order to be able to carry out such activities[11].

(Note: Please see note at the end of section B.)

(m) (n) Compliance: Appropriate and effective procedures and mechanisms to determine and to address cases of non-compliance with the provisions of this Protocol should

be established. The procedures and mechanisms should be underpinned by the principles of the Convention.[11]

(n) (p) Institutional framework: The institutions as provided for in Article 12 shall follow the principles and the nature and scope of the CDM[11,13] and shall be accountable to the COP/MOP[22]. At the same time, it is recognized that the institutional framework will be based on [1][representativity][1] [membership that reflects the unique representational balance established by the practice of the Parties (such as the COP Bureau)[3]][11].][4]

(India requested that "the following must be included in the Chairmen's text":

** "The principles related to the nature and scope of Article 12 projects must guide and direct the methodological and operational issues pertaining to project activity and the institutional issues."*

** In para. 108 (a) (i): After "...in achieving sustainable development", the following be added: "thereby" (i.e., so that it reads: "...in achieving sustainable development thereby contributing to the...").*

** In para. 108 (a) (i): After "...should meet the above two-fold purpose", the following should be inserted: "Each CDM project activity must involve the participation both of developed and developing country Parties."*

** In para. 108 (a) (iv), after "...will be enabled to meet part of its emission reduction commitment.", the following must be added: "The emissions certified to be reduced in CDM project activity will be used by developed country Parties to meet part of its quantified emission limitation and reduction commitment in return for funding a CDM project in accordance with the terms of agreement between the participating developed and developing countries."*

** In para. 58 (a) (v): after "The Protocol has made provision for certifying the emissions reduced from a CDM project", the following must be added: "The emissions certified to be reduced in CDM project activity will be used by developed country Parties to meet part of their quantified emission limitation and reduction commitments in return for funding a CDM project in accordance with the terms of agreement between the participating developed and developing countries."*

** After para. 108 (a) (v) (i.e., after "... transferable under Article 17.", in a separate sub-sub para.: "The nature and scope of Article 12 projects is different from the other mechanisms. Unlike the other mechanisms, the CDM is the only mechanism which involves the participation of developing country Parties in project activities, wherein the project activity will be based in developing countries. Unlike the other mechanisms, the CDM stipulates sustainable development in developing countries as a basic purpose. Unlike the other mechanisms, the CER accruing from the CDM is a certification of the emissions reduced from*

certified project activity assisting sustainable development in a developing country which a developed country has funded. The Protocol provides for emission reductions resulting from Article 6 projects to be transferred between developed country Parties as emission reduction units, as well as transfers of part of an assigned amount among developed country Parties on fulfilment of necessary conditions under Article 17, but the Protocol does not provide for transfers of certified emission reductions resulting from CDM project activity. The Protocol treats project based activity in Article 6, which is between developed country Parties, differently from Article 12 projects which are between developed and developing country Parties. The ERUs and the assigned amount are unlike concepts. Any decision by the COP/MOP on Article 12 projects must be a separate decision. There should be three separate decisions, each on Article 6, 12 and 17, related to the three mechanisms."

** In para. 108 (b): "It must be ensured that the CDM does not have dormant any possibility or potential of freezing or perpetuating past and present inequities between developed and developing countries. Equity relates to equitable emission entitlements. Developed countries must contract greenhouse gas emissions to reduced levels with per capita emission levels in developed and developing countries coming on a converging path. Equal per capita emission levels is an equitable norm. The per capita criterion is central to the determination of emission entitlements, providing a direct measure of human welfare for economic and social development and poverty eradication in developing countries. "With the aforementioned insertion, the present portion attributed to India in para. 108 (b) on equity may be deleted.*

** In para. 108 (d): After "...whether that project meets its national sustainable development objectives and priorities", the following must be added: "CDM projects should give priority to the renewables sector or highly energy efficient projects that are at the top end of efficiency practice anywhere."*

** In para. 108 (l): After "...ongoing work on adaptation under the Convention.", the following be added: "...The poorest populations are the most vulnerable.")*

C. "Part of"/ supplementarity

109. (64) Option 1: No determination of the term "part of"[4].

Option 2: Parties included in Annex I shall not fulfil their obligations under Article 3 primarily through extraterritorial means[3]. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access the CDM in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission reduction limitation commitment[3].

Option 3 (i): Net acquisitions by a Party included in Annex I for all three mechanisms together must not exceed the higher of the following alternatives:

(a) 5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5')[10];

(b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount[10].

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8[10].

Option 3 (ii): The overall 'cap' on the use of the three mechanisms should not exceed 25-30 per cent as a maximum[20].

Option 3 (iii): The overall use of CERs by Parties included in Annex I to contribute to compliance under Article 3 should be limited to 25 per cent of the aggregate assigned amount[7].

Option 4: CDM project activities shall be supplemental to domestic actions by developed country Parties to meet part of their quantified emission limitation and reduction commitments[11,13]. Developed country Parties' participation in CDM project activities should be contingent on [satisfaction of prescribed domestic effort[13]] [achieving a level of 40 per cent through domestic actions[31]] in fulfilment of commitments under Article 3[13]. A quantified ceiling on the emissions limited and reduced through the mechanisms is required[13]. The ceiling for the acquisition of CERs by Parties included in Annex I shall be fixed at 35 per cent[31]. Commensurate non-compliance processes must be prescribed[13].

Option 5: Limits may be levied in the short-term on CERs used by Parties included in Annex I to meet the limitation and reduction commitments but, in the long-term, CERs may be freely utilized[19].

D. Participation

110. (65) Participation in a CDM project activity is voluntary[6,7,13,18].

111. (70) Option 1: CDM projects shall be implemented between Parties included and not included in Annex I[6].

Option 2: Parties not included in Annex I may individually or jointly[31] propose[31], develop[12], finance and implement projects[19,29] under the CDM[12,28] with specific reference to decision 1/CP.3, article 5 subparagraph (e)[28]. The CERs generated by such projects can, in accordance with the national policies of the host countries, be transferred to Parties included in Annex I, or to entities resident in Parties included in Annex I, for compliance with their commitments under Article 3[7,28].

Option 3: The CDM involves the participation of both developed and developing country Parties in each project activity[13].

112. (68) A Party not included in Annex I shall benefit from project activities through participation in the CDM[2] only[6] if the Party:

(a) (a) Has ratified the Protocol[3,6,10,12,24,29,31];

(b) (b) Is bound by a compliance regime adopted by the COP/MOP[6,10,24];

(c) (c) Has not been excluded from participation in the CDM according to the procedures and mechanisms under the compliance regime[6,10,24]; and

(d) (d) Is in compliance with its commitments under Article 12 of the Convention[10,24] and with all CDM rules and guidelines[3,31] and relevant provisions in the Protocol[3].

113. (66) Option 1: A Party included in Annex I shall only [participate in the CDM through the[2]] use [of[2]] CERs to contribute to compliance if the Party:

(a) (a) Has ratified the Protocol[3,10,12,24,29,31];

(b) (b) Is bound by a compliance regime adopted by the COP/MOP[3,7,10,13,24] and has not been excluded from participation in the CDM according to its procedures and mechanisms[3,10,13,24];

(c) (d) Has satisfied prescribed domestic effort in fulfilment of commitments under Articles 2[3,18] and 3[3,11,13];

(d) (e) Is in compliance with its commitments under Articles 5[10,18] and 7[10,18] and under Article 12 of the Convention[10,24];

(e) (f) Is in compliance with all CDM rules and guidelines and relevant provisions in the Protocol[3,7].

Option 2: A Party included in Annex I may not use CERs accruing from CDM project activities if that Party is found not to be in compliance with its obligations under Articles 5 and 7[4].

114. If, in addition to the provisions of Article 6, paragraph 1 (c) or 4, a Party included in Annex I may or shall lose its eligibility to participate in the mechanisms when it is in non-compliance with all or specified provisions of Articles 5 and/or 7, a Party included in Annex I also shall lose its eligibility to participate in the mechanisms when it is in non-compliance with any provision of Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, or 11[20].

115. If, in addition to the provisions of Article 6, paragraph 1 (c) or 4, a Party included in Annex I may or shall lose its eligibility to participate in the mechanisms when it is in non-compliance with all or specified provisions of guidelines or modalities established, or with other decisions taken, by the COP/MOP pursuant to Articles 5 and/or 7, a Party included in Annex I also shall lose its eligibility to participate in the mechanisms when it is in non-compliance with any guideline, modality, rule or principle established, or decision or other action taken, by the COP/MOP pursuant to Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, 6, 11 or 12 or any principle, modality, rule or guideline established by the COP pursuant to Article 17[20].

116. A Party operating under Article 4 [may[4,22]] [may not[4]] acquire any CERs resulting from projects under Article 12 if another Party operating under the same Article 4 agreement, or if a regional economic integration organization to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7[4]. [4]

117. (71) Private and/or public entities can participate in the CDM[6] with the approval of the Parties involved in CDM projects[3,4,7,10,18,19,24], subject to:

(a) (a) The Party in which the entity is resident being eligible to acquire or transfer CERs[24];

(b) (c) Guidance provided by the executive board[7,11]; and

(c) (d) Compliance with CDM rules and guidelines[3,7,18].

118. Private and public entities resident in Parties not included in Annex I may develop[12], finance[7,12,28] and implement[19,29] projects under the CDM[7,12,28]. The CERs generated by such projects can, in accordance with the national policies of the host countries, be transferred to Parties included in Annex I, or to entities resident in Parties included in Annex I, for compliance with their commitments under Article 3[7,28].

119. A Party may develop rules or guidance consistent with rules established by the COP/MOP and the executive board for the participation in CDM project activities of that Party and of entities resident in or operating in the jurisdiction of that Party[4].

120. (73) The Parties participating in CDM projects [must] [shall[6]] be responsible at all stages and in all aspects for the project activity in which they are participating[6,7,11,13] and for the involvement of their private and/or public entities[6,11,18]. The participation of private and/or public entities in project activities does not affect the responsibility of Parties included in Annex I for the fulfilment of their commitments under the Protocol[3,10,24] and the Convention[3]. Any costs, risks or liabilities that have not been expressly accepted by the Party not included in Annex I before approval of the CDM project activity shall be assumed to be the responsibility of the participating developed country Party[6,11,13]. In cases where no Party included in Annex I or entity resident in such a Party is involved, the host country assumes total responsibility for the project[7,12].

E. Share of proceeds

121. (74) A share of the proceeds from CDM project activities shall be [collected and[4]] used to:

(a) (a) Cover [administrative expenses of the CDM[3,4,7,10,31]] [administrative expenses to support the operation of the executive board[4]] [administrative expenses of the executive board[6,10], including the administration of the executive board and administration of the share of proceeds for adaptation[10]] [costs pertaining to the activity of the executive board[7,18]]; and

(b) (b) Assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation[3,4,6,10,11,13,18,31].

122. (75) The share of proceeds is defined ...

- Option 1: as __ per cent of the number of CERs [issued[7,10,12,19,24]] [generated by a registered project activity[4]].
- Option 2: as __ per cent of the value of the CERs issued[18].
- Option 3: as __ per cent of the value of each CDM project[20].
- Option 4: as a stipulated percentage of the differential of the costs incurred by the Party included in Annex I in reducing greenhouse gas emissions through a project activity in a Party not included in Annex I and of the projected costs that would have been incurred if the greenhouse gas emission reduction activity had taken place in the Party included in Annex I which is funding the project activity[13].

- Option 5: A surcharge shall be levied on the basis of the amount of the CERs acquired by the Party included in Annex I participating in the CDM project[6]. The rate of the surcharge shall be decided by COP/MOP[6].

123. (76) Option 1: The share of proceeds to cover administrative expenses shall not exceed three per cent of the market value of the CERs[7].

Option 2: The share of proceeds [should be restricted to a limited amount[4]] [should be established at a relatively low level[18]] [should not exceed a defined level of total project cost, depending on the hazard rate from climate change to both the economy and the public[15]].

Option 3: No more than Y per cent of the total amount of a share of proceeds shall be used to cover administrative expenses, in accordance with paragraphs X and X[4]. The remaining amount of a share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation[4].

Option 4: The share of proceeds to cover administrative expenses of the executive board should be kept to the minimum to ensure that a large amount of the share of proceeds is used to cover adaptation costs[6].

Option 5: Percentage to administration - 10 per cent; percentage to adaptation fund - 20 per cent; and part to host developing country - 30 per cent[30]. The part of the proceeds going to the host developing country should assist the host developing country in the realization of its sustainable development objective[22].

Option 6: The "share of the proceeds from certified project activities" must not be of an order which adversely affects the competitiveness of the CDM compared to the other mechanisms[13].

124. Following the certification of the reductions in emissions by sources and/or enhancements of removals by sinks by a project activity, the [designated[2]] operational entity shall:

(a) assess the share of proceeds for the project activity [4]; and

(b) inform the project participant of the amount to be assessed[4].

125. The collection of a share of proceeds will be undertaken in accordance with procedures for the issuance of CERs. The share of proceeds devoted to meeting the costs of adaptation will be transferred to the adaptation fund established below[4]. The share of proceeds devoted to covering administrative expenses will be transferred to the executive board[4].

II. METHODOLOGICAL AND OPERATIONAL ISSUES

A. Project validation [/] [and[2]] registration

Option 1:

126. [Validation[10]] [registration[4]] [presentation[12]] is the formal acceptance of a project activity as a CDM project.[4] [Validation[10]] [registration[4]] [presentation[12]] will be performed by an accredited operational entity under a contractual arrangement with project participants.[4]

127. (82) [Validation[10]] [registration[4]] of a project activity is a prerequisite for the certification and issuance of CERs related to that project activity[4,7,10].

Option 2:

128. Validation is the process of evaluation of a project against the requirements of CDM projects on the basis of a project design document completed in accordance with appendix B[2]. This shall be performed by a designated operational entity under a contractual arrangement with project participants[2].

129. A project design document is the documentation through which a project is proposed for validation. It shall include all information needed for the validation of the project as a CDM project[2].

130. A designated operational entity is an operational entity that has been designated[, on recommendation of the executive board, by the COP/MOP][by the executive board] on the basis of its accreditation criteria[2].

131. A validated project is one which is found, through the process of validation, to meet the requirements of CDM projects and which receives a recommendation for registration from the designated operational entity[2].

132. Registration is the formal acceptance by the executive board of a validated project as a CDM project[2].

133. Validation and registration of a project are prerequisites for the verification, certification and issuance of CERs related to that project activity[2].

134. Option 1: The baseline for any project activity shall be, the [project-by-project[13]] reference case [, describing expected levels of GHG emissions,[24]] [,defined on the basis of GHG emission levels and its related tech-economic characteristics,[6]] [most likely to occur[24]] [that would occur in the absence of a [proposed Article 12 [24]] project activity][10] [within a given project[2] boundary[24]] [, taking into account the domestic circumstances in the participating developing country Party,[6]] in the absence of the [certified[13]] project [activity[13]][24].

(87) The emissions baseline shall reflect the 'no project' scenario[6,7].

Option 2: The baseline for a project under Article 12 is the estimate of what the GHG emissions [or removals by sinks] would have been in the absence of the project, calculated using the validated baseline methodology for the project[2].

135. Option 1: [The baseline serves as the basis for the measurement of the GHG effects of a proposed Article 6 or Article 12 project within the same system boundary][24,27]. [The actual emission reductions of projects shall be calculated against that reference case][10,27]. [The difference between the baseline and the project's emissions or [removal[3]] scenario will determine the net environmental benefit in terms of emission reductions][7,27]. The emissions baseline shall be the basis for calculating the emission reductions to be certified[7].

Option 2: The emission reduction by a CDM project activity during a given year is the *ex post* calculation of baseline emissions less the actual emissions less leakage [or baseline removals by sinks less actual removals by sinks less leakage] due to the CDM project activity during that year[2].

136. The criteria for the preparation of baselines, provided in appendix A, and calculation of emission reductions are to ensure methodological compatibility in treatment across CDM projects[7] and between CDM and Article 6 projects[3,7].

(The following paragraphs describe modalities for CDM project activities.)

137. (79) Project activities under the CDM shall:

(a) (a) Cover [one or more of the gases listed in Annex A of the Protocol[4,6,7]] [only CO_2 until the COP/MOP decides that other gases should be included[3,18]];

(b) (b) Provide reductions in emissions[4,6,30] [and/or avoid emissions[30]], [in one or more of the sector/source categories listed in Annex A of the Protocol[7],] [by sources[4] and/or an enhancement of removals[4,7,20,29] by sinks[4] [, as noted in Article 3, paragraphs 3 and 4[29]]] that are additional to any that would occur in the absence of the project activity[4,6];

(c) (c) Assist the host Party "in achieving sustainable development"[1,2,6,7];

(d) (d) Be based on the best available long-term environmental option, taking into account local and national needs and priorities[3];

(e) (e) Lead to the transfer of state-of-the-art, environmentally sound technology in addition to that required under other provisions of the Convention and the Protocol[3,11,13];

(f) (f) Give priority to renewable energy[3,12,13,31], energy efficiency[12,13,31] [[technologies[2]] that are at the top end of efficiency practice anywhere[13]], reducing emissions from the transportation sector[12,31] and carbon sequestration for the combating of desertification[31];

(g) (g) Not support the use of nuclear power[3].

138. (80) Option 1: Projects aimed at enhancing the anthropogenic or non-anthropogenic removals by sinks of greenhouse gases are not eligible [2][for funding[3,24]][2] under the CDM[3,24] [until[3] the outcome of methodological work on Article 3, paragraphs 3 and 4, is reached[11,19]] [until[3] the COP/MOP decides on the eligibility of CDM projects to enhance anthropogenic removals of greenhouse gases by sinks[7,24]] [until[3] methods are developed allowing for reliable process assessment[18]].

Option 2: Provided that the proper UNFCCC methodology for the determination of a project-by-project baseline is defined, based on the recommendation of the Special Report on Land Use, Land Use Change and Forestry and other relevant documents, the following activities may, *inter alia*, be eligible as CDM projects[28]:

(a) (a) Conservation of natural forests and regeneration, including Reduced Impact Logging (RIL), and non-timber products[28];

(b) (b) Reforestation[28];

(c) (c) Afforestation[28];

(d) (d) Sustainable forest management[28];

(e) (e) Protection of endangered protected areas[28]; and

(f) (f) Utilization of biomass as an energy source[28].

Option 3: Provided that the proper decisions are adopted by the COP/MOP, based on the recommendation of the IPCC Special Report on Land Use, Land Use Change and Forestry, the modalities for CDM projects on land-use change and forestry should be consistent and the same as those under Articles 2, 3 and 6, without discrimination in respect of project activities carried out in developing country Parties[7]. Source/sink categories used in determining emission reductions from CDM projects shall be consistent with those used by Parties included in Annex I in their national inventories[7].

139. Option 1: Appendix A does not apply to projects aimed at enhancing anthropogenic removals by sinks of greenhouse gases under Article 3, paragraphs 3 and 4[2], which shall be

governed by separate guidelines to be established once the eligibility of such projects under Article 12 has been decided by the [COP] [COP/MOP[2]].[24]

Option 2: Appendix A applies to projects aimed at enhancing anthropogenic removals by sinks of greenhouse gases under Article 3, paragraphs 3 and 4[29].

140. (91) Option 1: A project activity [commenced after 11 December 1997[4]] [initiated before the COP/MOP[7,28]] [, as well as any project activity under the pilot phase for activities implemented jointly[4,7,12,19,29], with the agreement of the participating Parties,[4,7]] shall be eligible for [consideration] [validation and registration[2]] as a CDM project activity if it meets [the criteria contained in appendices A and B[4,10,12,18,19,28,29]] [the modalities, criteria and rules applicable to the CDM to be defined by the COP/MOP[7]]. Following project [validation[10]] [registration[2,4]] [presentation[12]], resultant reductions in emissions by sources [and/or enhancements of removals by sinks[4,7,20]] [from 1 January 2000 onwards[4,7,10,11,12]] [from the date of the host Party's ratification of the Protocol or from the year 2000, whichever is the later,[29]] will be eligible for retrospective certification[4,7,10,11,12].

Option 2: Activities implemented jointly under the pilot phase shall be [3][automatically][3] converted into CDM projects[18] provided such projects, and their respective Parties and participants, meet all conditions and criteria applicable to CDM projects and are in accordance with any procedures set out in decisions concerning the pilot phase of activities implemented jointly (decision 5/CP.1)[3].

141. The COP/MOP shall consider the ineligibility of certain project types under Article 6 and Article 12, due to concerns about their additionality, their overall environmental integrity, or to the lack of reliable methodologies to estimate GHG levels for such projects[24]. Special consideration shall be given to sustainable development criteria and to the potential of certain project types to cause negative spillover effects into the domains of other multilateral environmental agreements[24].

142. (81 bis) Modalities and procedures for project eligibility shall ensure that CDM investments take place in Parties that are often marginalized by purely market-based instruments[3].

143. (92) CDM activities shall be project-based and carried out on a project-by-project basis[6,32].

144. (81) CDM project activities may be embedded in broader projects which are undertaken for reasons other than climate change[15]. In such cases, emission reductions from the CDM component of the broader project shall be additional and subject to certification procedures[15].

145. Two or several small-scale projects of the same kind may be bundled so as to be subject to a single transaction involving a single Party included in Annex I, without losing their own

project identity with respect to requirements for validation, verification and certification[15]. The Party included in Annex I may be acting on its own or on behalf of several small-scale investors[15].

(The following paragraphs refer to the determination of additionality.)

Option A:

146. Emissions additionality: CDM projects should achieve real, measurable and long-term GHG emission reductions[19]. Baselines shall allow for the determination of additionality under Article 12, paragraph 5 (c)[24]. The emissions baseline shall be the basis for calculating the environmental additionality of the project[10,18].

147. Environmental additionality is quantified on a project basis in terms of emission reductions [3][or enhancement of removals by sinks][3] during the lifespan of the project. Environmental additionality is assessed depending on which methodology a project developer uses[7].

(a) Under a project-by-project approach, developers shall establish a baseline against which the project's emissions scenario will be compared. If the project's emissions are below the baseline, then it would be considered additional if, and only if, it has financial additionality[7].

(b) With a [multi-project] [standardized] baseline, projects that perform better than the [benchmark] [performance standard] would automatically be considered additional[7].

148. Financial additionality is achieved if the project funding does not include any contribution from official development assistance (ODA)[13,19,30], the Global Environment Facility (GEF)[13,19,30] and [other financial commitments of the Parties included in Annex I[13,19]] [other financial commitments of developed country Parties under the Convention and the Protocol and commitments under other relevant international conventions and their protocols[6]]. Parties included in Annex I participating in any of the three flexible mechanisms shall give concrete information that their ODA flows are not declining as a result of their participation in any of the flexible mechanisms[26].

149. Option 1: [Financial] [Investment[2]] additionality: Projects which are commercially viable without emission credits should not qualify as CDM projects[19];

Option 2: [Financial] [Investment[2]] is derived from the concept of environmental additionality and relates to whether the project activity would have existed in the absence of economic valuation and internalization of the emission reductions from the project which are being acquired by the investor from the Party included in Annex B to the Protocol[7]. [Financial] [Investment[2]] additionality should be quantified in terms of the impact of the economic

valuation of the emission reductions on the project finances[7]. It will be necessary to compare financial indicators (internal rate of return, net present value and equivalent annual value), drawn up in the light of the flows of funds with and without economic valuation of CERs accrued as a result of the project activities during the project's lifespan[7].

The necessary conditions for [financial] [investment[2]] additionality shall be[7]:

(a) The baseline should be the leastcost option and among those, the minimum emissions alternative[7];

(b) The CDM project, before the economic valuation of CERs, should be financially less attractive or less likely to occur than the baseline case[7];

(c) The emissions scenario of the CDM project should be less than those from the baseline case[7]; and

(d) The valuation of CERs from the CDM project, alternative at some reasonable price, shall significantly impact the financial performance of the project[7]. It suffices to ensure that CERs valuation significantly improves the CDM project bankability or likelihood that this will occur[7].

Option 3: Among the additionality conditions, investment additionality deserves greater attention[19]. If there is no distinction between Foreign Direct Investment (FDI) and CDM investment, FDI, which takes place on a commercial basis even without emission credits, could be repackaged as CDM investment, and obtain emission credits[19]. This will result in an overflow of emission credits, which will have adverse effects on global efforts to fight against climate change[19]. Distinguishing between FDI and CDM investment is not an easy task and requires further elaboration[19]. The concept of concessionality which applies to ODA can be considered as an exemplary criterion[19]. According to OECD/DAC (Development Assistance Committee), ODA is required to have a "grant element" of at least 25 per cent[19]. Additionally, the concept of the normal internal rate of return can also be considered to be a criterion for distinguishing FDI and CDM investment[19]. Investment made below the level of the normal internal rate of return should be considered as CDM investment[19].

150. Option 1: Technology additionality: Technology for CDM projects should be appropriate for Parties not included in Annex I and meet best available technology standards[19].

Option 2: Technology transfer in CDM project activities is additional to the commitments of Parties included in Annex II on technology transfer to developing country Parties[8] and provides access to the technology needed by the participating developing country Party[13].

Option B:

151. A project is additional if it achieves [emissions] [environmental], financial, investment and technology additionality[2]:

(a) [Emissions] [Environmental] additionality is achieved if emissions are reduced below [or removals by sinks are increased beyond] those that would occur in the absence of the validated project. Since the validated baseline is defined as the GHG emissions [or removals by sinks] in the absence of the project, emissions reductions from [or removals by sinks beyond] the baseline are additional[2].

(b) Financial additionality is achieved if project funding [is additional to] [does not result in a diversion of] ODA, GEF and other financial commitments of the developed country Parties and other systems of cooperation[2].

(c) Investment additionality is achieved if the value of the CERs significantly improves the financial and/or commercial viability of the project[2].

(d) Technology additionality is achieved if the technology used for the project is the best available for the circumstances for the host Party[2].

(The following paragraphs address the criteria for real, measurable and long-term benefits related to the mitigation of climate change.)

152. Option 1: Project baselines should be credible, verifiable and, where possible, consistent and comparable[3]. The [benefits] [emission reductions[2]] related to a project activity would be recognized as real if the actual greenhouse gas (GHG) emissions can be shown to be less than the project baseline[11].

Completeness[10,24]: Leakage effects or project effects beyond the chosen project boundaries should be addressed in the analysis of the baseline, as appropriate[10]. Significant GHG impacts, as defined in the [UNFCCC[3]] baseline reference manual, shall be monitored and quantified periodically throughout the life of the project to provide a basis for the verification and certification of emission reductions[24]. GHG effects beyond a given system boundary shall be identified and taken into account in accordance with the provisions of the [handbook[10]] [[UNFCCC[3]] baseline reference manual[24]] [24].

CDM projects should secure reductions, that will be essential in relation to the reference scenario, i.e. it will exceed the error level of emission estimates[18]. Such reductions also cannot result in the increase in emissions from remaining production plants of the same sector (i.e. elimination of " leakage" by means of making it impossible to transfer an old technology to another plant)[18].

Baselines for project activities shall address all relevant gases covered by the Protocol in the context of the specific project activity[7].

The system boundary of a project shall be defined[24,27] so as to minimize negative leakage effects[24]. Standard leakage correction factors shall be developed for cases where the quantification of relevant negative leakage effects is beyond the capacity of individual project developers[24].

The system boundaries can be defined by the scale of proposed activity: productive unit, enterprise, a number of enterprises and etc.[27].

Option 2: A baseline shall cover emissions from sources listed in Annex A to the Protocol [or enhance removals by sinks] and shall address all relevant greenhouse gases listed in Annex A to the Protocol[2]. In order to ensure that emission reductions [or the enhanced removals by sinks] are real, the baseline shall take into account[2]:

(a) The validated project boundary, defined as the space within which the project is implemented and its emissions [or removals by sinks] occur[2].

(b) Leakage, defined as the change in emissions [or removals by sinks] outside the project boundary which is due to the project. Emission reductions outside the project boundary due to the project cannot be credited to the project[2].

(c) Variations in actual activity levels during the year[2].

153. Option 1: CDM projects should include only projects whose emission amount is measurable or can be assessed[18].

Option 2: The benefits would be recognized as measurable if the actual level of GHG emissions of the project case and the level of GHG emissions in the project baseline can be established with a reasonable degree of certainty[11].

Option 3: The emissions reduction is measurable if the actual GHG emissions [or removals by sinks] after the project has been implemented can be measured and monitored in accordance with appendix C and the GHG emissions [or sink enhancement] baseline can be calculated using a validated methodology[2].

154. Option 1: The emission reductions resulting from a CDM project should be stable and should be sustained during the lifetime of the implemented technology[18].

Option 2: The [benefits of a project activity would be recognized as] [emission reduction is[2]] long-term if the emission reduction persists over an appropriate period of time,

taking into account the lifespans of different CDM project activities, and bearing in mind Article 2 of the Convention[11].

(The following paragraphs cover types of baselines, such as project-specific and multi-project baselines.)

155. Option 1: Baselines are to be defined on a project-specific basis, but may be partly or entirely based on aggregate or standardized values (benchmarks) that have been previously approved through a process defined [below in the section "Approval of baseline methodologies"[2]] [in the handbook[10]] [in the [UNFCCC[3]] baseline reference manual[24]][24].

Baselines considered for the CDM shall include both project-specific and multi-project baselines[4]:

(a) A project-specific baseline establishes the emissions [3][and/or removals][3] for a specific reference case that represents what would occur in the absence of a particular project activity. Emissions [3][and/or removals][3] resulting from a project activity would be compared to the project-specific baseline to calculate net reductions [3][or removals][3] resulting from the project activity[4].

(b) A multi-project baseline establishes a performance standard (based on emissions [3][and/or removals][3]) for a sector or source category for a specific geographic area that represents what would occur in the absence of a particular project activity. Emissions [3][and/or removals][3] resulting from a project activity within the same sector or source category and same geographic area would be compared to the multi-project baseline to calculate net reductions [3][or removals][3] resulting from the project activity[4].

A baseline would be defined at national levels by countries [as per national communications][22] [possibly backed by][21]/ [combined with][22] project-by-project baselines.[21,22]

Baselines shall be determined on a project-by-project basis[6,7,11,13,19]. In some cases, in accordance with appendix A, sectoral baselines[7] and standard baselines for project categories[7,19] for each host Party[19] may be applied.

Only project-by-project, not sector or country baselines, shall be applied to CDM projects[6].

Option 2: Baselines considered for the CDM shall include both project-specific and multi-project baselines. A project-specific baseline defines what the emissions [or removals by sinks] would have been in the absence of the CDM project and is unique to the project[2]. However, the methodology to calculate the baseline could be applied to other projects if appropriate[2].

A [multi-project] [standardized] baseline for a given project type and specific geographic area defines what the emissions [or removals by sinks] would have been in the absence of the CDM project using a performance standard approved by the executive board[2].

(The following paragraphs refer to the crediting period for a CDM project activity.)

156. The crediting period for a project is the period of validity of the [validated[2]] baseline. The crediting period of a project may be extended by a validated revision of the baseline[7,24].

157. Option 1: Baselines shall be allowed for a maximum total crediting time of a project of [x] years[10]. The crediting time shall be the interval that provides the most objective determination of the baseline[10,27].

During a crediting period the baseline of a project shall not be subject to revision[24] Baselines, once certified, should remain static for the lifespan of the project.[7] The baseline estimate should be subject to periodic review as appropriate to ensure that unforeseen developments have not changed the original assessment[10].

If the lifetime extends beyond [x] years, baseline estimates should be reviewed[10]. The crediting period of a project may be extended by means of an approved revision of the baseline[24]. Factors in baseline determination which are subject to revision at the end of the crediting period should be identified at the outset[24]. A dynamic change in baseline over time will often be driven by many factors, including economy, technology and policy development[6]. Such a change is "most likely to occur" in the absence of CDM project activities, as a result, the baseline needs to be adjusted accordingly[6]. In particular, in case the dynamic baseline level falls down to the CDM project emission level, the CERs of the CDM project should no longer accrue[6]. The choice between a static or dynamic baseline should depend on the type of project and the approach used to establish the baseline[10].

Option 2: The crediting period shall be the shortest of: a) the operational life of the project; b) [x] years; and c) the period proposed by the project participants[2]. During a crediting period the validated baseline methodology of a project shall not be subject to revision except as provided for in appendix C (*recommendation by designated operational entity verifying the emissions reductions to modify the baseline)*[2]. If the operational life of the project exceeds the crediting period, a new baseline shall be validated at the end of each crediting period[2].

(The following paragraphs refer to the revision of baselines.)

158. Option 1: The baseline by sector may be revised periodically if the CDM executive board so decides, for subsequent application to new projects[7]. The periodic review of the relevance of the assumptions determining the baseline should apply for both static and dynamic baselines[10]. To provide a degree of certainty for project developers and investors, revisions [of

baselines methodologies[2]] may not be retroactively applied to approved projects in the process of implementation[24].

Option 2: A [standardized] [multi-project] baseline may be revised by the executive board in accordance with the provisions below[2] (*approval of baselines*). Any revision shall be applied to new baselines, but shall not affect existing registered projects during their crediting period[2].

(The following paragraphs cover special and additional requirements for baselines.)

159. The baseline shall have a development dimension[7]. When evaluating CDM project baselines from least developed country Parties, "development-benefit-of-the-doubt" should be granted and therefore the least cost option should be considered as the baseline, even if that options is not bankable, to create CERs to be valued and make the CDM project bankable[7].

160. (84 bis) Substantial objections by stakeholders shall be taken into account[24].

161. (84) Information pertaining to [validated[10]] [registered[4]] [presented[12]] project activities shall be [publically accessible[4]] [published in a suitable manner[10]], such as[2] decisions on [validation[10]] [registration[2,4]] [presentation[12]] and [validation[2,10]] [registration[4]] [presentation[12]] reports[2].

162. (88) Baselines shall be established in accordance with appendix A[4].

(The following paragraphs cover approval and revision procedures.)

163. If the designated operational entity determines that the project design as documented fulfils the requirements, it shall recommend the project for registration[2].

164. If the designated operational entity determines that the project design includes new baseline or monitoring methods and that these new methods are consistent with the applicable guidelines, it shall recommend the project for registration pending approval of the new baseline and/or monitoring method by the executive board[2].

165. If the designated operational entity determines that the project design as documented does not fulfil the requirements for validation, it shall inform the project participants and involved Parties of this decision[2]. This decision will explain the reasons for non-acceptance[2]. A project that is not accepted may be reconsidered after appropriate revisions have been made[2].

B. Project financing

166. (95 bis) Funding of CDM projects shall [be additional to[11,22,30,31,32]] [not result in a diversion of[4,10]] ODA, GEF[10,11,30,31,32] and other financial commitments of the developed country Parties[10,11,13,32] and other systems of cooperation[31].

167. (95) Option 1: Developed country Parties [shall[11,13]] [may[7,31]][, individually or jointly[7,31],] fund CDM projects in developing country Parties [which assist in sustainable development[11,13]]. Public and private entities from Parties [not[7]] included in Annex I may[, individually or jointly,[7,16,31]] finance and implement CDM projects[7,11,13,16,28,31], with specific reference to decision 1/CP.3, article 5 subparagraph (e)[28]. Project financing may be provided by other sources, including [international[28]] [multilateral[7]] financial entities[7,28].

Option 2: [Additional[7]] funding for CDM project activities shall be provided by the participating Party included in Annex I to the participating Party not included in Annex I on the basis of the CERs acquired from the project activity as returns for the participating Party included in Annex I for meeting part of its quantified emission limitation and reduction commitments[6,7]. Annex I country Parties may involve private and/or public entities in such funding[6].

168. (96) Option 1: Projects may be financed [unilaterally[12,18,31], bilaterally[6,18,27,30,31] or multilaterally[18,27,30,31]].

Option 2: Projects shall be financed through a multilateral fund[8,31] [defined by the COP/MOP and managed by the executive board[31]] [and a clearing house[8]]. This fund may accommodate both public and private investment funds[8]. The CERs generated by the projects so financed shall be allocated to Parties included in Annex I in proportion to their contribution to the fund[31]. [The clearing house shall facilitate and coordinate, *inter alia*, the selection of projects and resource allocation[8]].

Option 3: Projects [shall[7]] [may[4]] be financed through a portfolio approach[4,7], [4][under a sole supplier arrangement, by means of a centralized market[7]. This market may operate through regional entities accredited by the executive board[7]. The clearing house shall facilitate and coordinate, *inter alia*, the selection of projects and resource allocation[7]. CER prices shall be set using criteria of joint supply by sectors of the economy, regardless of the origin of the project[7].][4]

169. Option 1: The executive board shall provide information on eligible CDM projects and their financing to Parties included and not included in Annex I[6] and promote initiatives to ensure that CDM investments take place in Parties that are often marginalized by market-based instruments[7]. Where necessary[6], under Article 12, paragraph 6[4], [the executive board may assist in arranging funding of CDM project activities] [a Party not included in Annex I may prepare project proposals and apply to the executive board for financial and technical support[18]]. Projects shall be opened to funding after they have been validated[4,18].

Option 2: A CDM equitable distribution fund is established to provide financial assistance to CDM project activities[3,16,30] [where necessary[16]] [in order to address any imbalances in the regional distribution of CDM activities[30]], as provided for in Article 12, paragraph 6[4]. It shall be funded by Parties included in Annex II at a substantial level to be

decided by the COP/MOP in accordance with a formula to be determined[16]. CERs generated by CDM projects made possible by this fund shall be distributed to Parties included in Annex II in proportion to their contribution[16]. This fund shall be administered by the executive board[16]. Parties not included in Annex I may propose CDM projects individually or jointly[16] to the CDM equitable distribution fund. The executive board shall allocate funds, including grants, to projects in accordance with criteria established by the COP/MOP[16]. Criteria could take into account the geographic distribution of existing and planned CDM projects, the comparative needs of regions or countries for assistance in achieving sustainable development, and the contribution of the proposed project to the limitation and reduction of greenhouse gas emissions[16]. Allocated funds need not necessarily offset the full cost of a CDM project[16].

170. (100) Forty per cent of the available money shall be allocated to eligible African countries[5].

C. Project monitoring

171. Monitoring shall include[2]:

(a) Greenhouse gas emissions [and/or removals by sinks][2] associated with the CDM project activity[10];

(b) Parameters related to the determination of baseline emissions [and/or removals by sinks][2]. This may include monitoring parameters outside the project boundaries to capture leakage effects[2]; and

(c) Other relevant impacts of the project (environmental, economic, social and cultural impacts)[10] as provided for in the monitoring plan contained in the project design document registered by the executive board[2].

172. The implementation of the [registered[2]] monitoring plan [contained in the project design document registered by the executive board[2]], shall be a condition for the issuance of CERs in the certification phase[10].

(The following paragraphs refer to the monitoring plan.)

173. Option 1: Monitoring shall be carried out on the basis of a [detailed[6]] monitoring plan specific to the project activity which shall be established prior to project [validation[10]] [registration[4]] [presentation[12]][10].

(101) Participants shall develop a monitoring plan containing information on their procedures for accurate, systematic and periodic monitoring of the project in accordance with the criteria in appendix C[7,10,31].

This will be assessed and [shall be[2]] accepted by the [designated[2]] operational entity as part of the [validation[2,10]] [registration[4]] [presentation[12]] process[24,31].

The [designated[2]] operational entity responsible for project [validation[10]] shall approve the monitoring plan and may request any change prior to validation[10] of the project[2,10].

The monitoring plan shall be the document of reference for an assessment of all factual data necessary to evaluate the performance of the activity.[10]

Option 2: Monitoring shall be carried out based on the monitoring plan contained in the project design document registered by the executive board[2]. Revisions to the monitoring plan require justification by project participants and shall be validated by a designated operational entity subject to guidance by the executive board[2].

(The following paragraphs refer to quality criteria for monitoring methods.)

174. Option 1: Accuracy: monitoring methods should be precise so as to ensure the best possible estimates of data related to project activities[10].

Reliability: monitoring operations should be based on unbiased, observable data to ensure accurate results. The monitoring methods should be updated in order to take into account any changes over time[10].

Transparency: the monitoring plan and methodologies used for the surveillance and measurement of the performance of the activity, including for calculating greenhouse gas emission reductions [3][or removals][3], should be clearly explained and well documented to ensure a credible verification of the results achieved[10].

Completeness: all relevant project effects, including leakage effects, from the project activity should be monitored[10]. Monitoring should provide a sound basis for assessing the contribution of the activity to achieving sustainable development in the host country[10].

Good practice:[2] standardized methods shall be used for monitoring. The monitoring methods should be updated to take account of changes over time[7,10].

Option 2: Monitoring under the CDM shall be accurate, consistent, comparable, complete, transparent and valid and shall be based on good practice[2]. In this context:

Accuracy is a relative measure of the exactness with which the true value of a relevant performance indicator can be monitored or determined[2]. Estimates and monitored relevant performance indicators should be accurate in the sense that they are systematically neither over nor under their true values, as far as can be judged, and that uncertainties are reduced as far as practicable[2].

Consistency means that the monitoring plan is internally consistent in all its elements and its relevant performance indicators over time[2]. Monitoring is consistent if the same performance indicators are used and the same assumptions and methods are applied to monitor these indicators over time[2]. The requirement for consistency should not inhibit changes to monitoring practices that improve accuracy and/or completeness[2]. Proposed changes to monitoring practices shall be approved by a designated operating entity subject to guidance by the executive board[2].

Comparability means that estimates of emissions [and removals] should be comparable between the baseline and the project, and across projects[2]. For this purpose, project participants should use methodologies and formats listed in the [UNFCCC] CDM reference manual[2].

Completeness means that monitoring covers, for the project baseline and actual emissions [and/or removals by sinks], all relevant GHGs and sector and source categories listed in Annex A of the Protocol[2]. Completeness also means covering all relevant performance indicators both within and outside the project boundary[2].

Transparency means that assumptions, formulae, methodologies and data sources are clearly explained and documented to facilitate consistent and replicable monitoring activities as well as assessment of the reported information[2]. The transparency of monitoring data and methods is fundamental to the credible verification and subsequent certification of achieved results and the issuance of CERs[2].

Validity means that relevant performance indicators give a real measure of achieved results[2]. Monitoring shall therefore be based on indicators that will give an observable and real picture of project performance[2].

Good practice means performance at least equivalent to the most cost-effective commercially applied monitoring methods. These monitoring methods shall be listed in the [UNFCCC] CDM reference manual and shall be updated [continuously] [periodically] to take into account changes in technologies and best practices[2].

175. The criteria for monitoring should take into account resource and technical constraints in developing countries, whilst still being rigorous enough to ensure that the objectives of the Convention have been met[22]. Participant Parties included in Annex I should provide the necessary financing and technical support to the participant Parties not included in Annex I for project monitoring[6].

(The following paragraphs refer to the responsibilities for monitoring.)

176. (102) Participants shall ensure that the [registered[2]] monitoring plan is properly implemented[3,6,4,7,10,18,24] [by an independent entity[31]], that all relevant data are collected, recorded and stored[3,6,4,7,18,24] [in a standardized format[3,6,7,11,13,18,24]], and that all relevant data are reported to

the relevant [designated[2]] operational entity for [certification] [verification[2]] purposes[4,6]. Such a systematic surveillance and measurement of[10] [aspects related to the implementation and[2]] the performance of the project[10] in accordance with the [validated[4]][registered[2]] monitoring plan shall be sufficient to enable[4] [measurement and[2]] calculation of additional reductions in emissions by sources [3][and/or enhancements of removals by sinks][3, 4] [for the accepted project boundaries for the project activity[4]]. The monitoring results shall be entered into an electronic national CDM database[6,27].

177. For technical reasons, a third party may provide assistance in implementing the monitoring plan[2] to the project participants[2]. Any such third party would operate under the responsibility of the project participants[2] and shall be independent of the [designated[2]] operational entities involved in the project [validation[2,10]], verification or certification[10].

D. Project verification

178. Verification[2] is the periodic [independent[3]] review and *ex post*[3] determination by [the[2]] [a[2]] designated operational entity of the reductions in emissions by sources [3][and/or enhancements of removals by sinks][3] that have occurred as a result of a specified project[4].

179. Option 1: [Independent operational entities designated by the COP/MOP[6]] [Independent entities[31]] shall perform independent [auditing] [verification[2]] of CDM projects in accordance with the methodology and standardized format contained in appendix C[6].

(104) Emission reductions achieved by the project in relation to the [validated[10]] [registered[2,4]] [presented[12]] baseline shall be [periodically[27]] [regularly[30]] [independently[3]] verified [on a periodic basis[3]] [from the monitored data and other pertinent information, in accordance with [7,11,13,27]] [the methodology and standardized format contained in appendix C[7,11,27]] [the methodologies accepted by the Parties participating in the project activity[13]]. Should the monitoring data be inadequate or insufficient, additional data from other sources may be used[4]. The verifier shall also review compliance with the modalities set up for project monitoring and reassess the basic project assumptions if this is necessary[27].

In undertaking the verification[2] process, the [designated[24]] operational entity shall[4]:

(a) Examine the adequacy of the documentation provided by the project participants to ensure that documentation has been provided in accordance with the approved project [proposals] [design document[2]] [, including the approved monitoring plan[2]][4];

(b) If appropriate, use additional data from other sources, to establish the reduction in emissions by sources [3][and/or enhancements of removals by sinks][3, 4];

(c) Conduct on-site inspections and/or interviews with relevant project participants and/or use specialized techniques if the examination in (a) establishes a need for such additional activities[4]; and

(d) Determine the reduction in emissions by sources [3][and/or enhancements of removals][3] by sinks based on the data and information used in (a) and, if appropriate, obtained through (b) and/or (c)[, using the calculation procedures in the approved project design document[2]] [4].

The [designated[2]] operational entity responsible for the verification[2] shall identify any concerns related to conformity of the actual project and its operation of the approved project [proposals] [design document[2]] . The [designated[2]] operational entity shall inform[2] the project participants of any such concerns and they may address the concerns and supply any additional information[4].

Verification shall be performed independently by a designated operational entity selected by the [proponents of the CDM project[12]] [host Party[11]] which shall be of recognized technical capacity to assume the responsibility involved[12]. The verifying entity shall report to the project participants, including the Parties involved, the executive board[24] and [designated[2]] operational entities[12].

(103) The continuing adequacy of the monitoring plan and its implementation shall be assessed by the designated operational entity in its verification reports to the executive board[24].

The [designated[2]] operational entity shall provide a certification report to the project participants and the executive board and this shall form the basis for the issue of any certificates[4].

180. Option 2: Verification is undertaken by a designated operational entity selected by the project participants, that is independent of the designated operational entity which validated the project[2].

The designated operational entity performing the verification shall[2]:

(a) Determine whether the project documentation provided is in accordance with the requirements of the registered project design document[2];

(b) Conduct on-site inspections, which may comprise, *inter alia*, review of performance records, interviews with relevant project participants and stakeholders, collection of measurements, observation of established practices and testing the accuracy of monitoring equipment[2];

(c) If appropriate, use additional data from other sources, to establish the reduction in emissions by sources [and/or enhancements of removals by sinks][2];

(d) Review and determine the reduction in emissions by sources [and/or enhancements of removals by sinks] based on the data and information used in (a) and, if appropriate, obtained through (b) and/or (c), using calculation procedures consistent with those contained in the validated project design documents[2];

(e) Identify any concerns related to conformity of the actual project and its operation of the registered project design document[2]. The designated operational entity shall inform the project participants of any such concerns and they may address the concerns and supply any additional information[2];

(f) Recommend to the project participants changes to the monitoring methodology it believes are appropriate[2]; and

(g) Provide a verification report to the project participants and to the executive board, which shall publish the report[2].

181. The composition of any verification team should be approved by the developing country Party participating in the CDM project activity[13].

182. Verification shall use existing national and international bodies and standards, where appropriate, to minimize bureaucracy[22].

E. [Certification[/] [and[2]] issuance of CERs] [Certification and acquisition of CERs[4]]

183. Certification is the written assurance by a designated operational entity that during the verification period a project has achieved the stated emission reductions [and/or removals by sinks] in compliance with all project performance criteria[2].

184. (108) Emission reductions from a [validated[10]] [registered[2,4]] [presented[12]] baseline[10,11] resulting from a project shall be certified in accordance with appendix C[4,24], after they have occurred, only if:

(a) (a) A participant in the project applies for the certification of the emission reductions resulting from the project during a specific period of time[10];

(b) (b) The emission reductions have been verified[2];

(c) (c) All Parties involved [are entitled[10]] [remain eligible[2]] to participate in the CDM[10] and the Party financing the project is in compliance with the Protocol, in particular with Articles 2, 3, 5, 7 and 10[18].

Option A:

185. (109) The certification of emission reductions [and/or enhancement of removals by sinks[4,7]] and issuance of CERs shall be performed by:

Option 1: [A designated operational entity[7,10,11,19]] [an accredited certifying entity[7,10]] [an independent entity[31]], [[in light of the requirements of Article 12, paragraph 5[6],][4] upon request of a project participant[10].

Option 2: The executive board on the basis of a [[verification][7] report[7,24], submitted by the national designated authority[7], which states whether the project meets the necessary requirements and the amount of emissions reductions achieved by the project in the period since the last certification was performed, as submitted by a designated operational entity[24].

Option 3: the executive board, subject to pre-certification by a national committee of the host Party[31].

Option 4: the host Party government in accordance with its own procedure, with reporting to the executive board[12].

Option 5: the Convention body[27].

Option 6: the acceptance or refusal by the COP/MOP[6].

186. (111) The [[designated[2]] operational entity[10]] [executive board[24]] [host Party government[12]] [Convention body[27]] shall inform the applicant of its decision in writing immediately upon completion of the certification process[10]. Decisions on the certification of emission reductions shall be published in a suitable manner[10].

187. (112) Once the emission reductions have been certified and the specified share of proceeds has been remitted to the executive board[3,4,27][, to cover administrative expenses and to the adaptation fund to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation[4]], the [[designated[2]]operational entity[10]] [executive board[24]] [host Party government[12,13]] [Convention body[27]] shall issue the appropriate number of CERs [to the project participants by depositing them to the registry accounts of the recipients[4], including the Parties involved, as agreed among themselves[4,12,18,27,31]] [to the developed country Party, in accordance with the agreement between the two Parties[13]]. Each CER shall have a unique serial number [, provided by a system administrator working under the authority of the executive board/secretariat in accordance with appendix D,[4]] from which it will be possible to determine the Party of origin, the project, [the project type[5]] the year of [issuance[4]] [certification[10]], [and the certifying entity[4,10]], [and shall be trackable through the registry system[4,7]][4,10,18].

Option B:

188. The designated operational entity that prepared the verification report shall certify in writing that during the verification period a project has achieved the stated emission reductions [and/or removals by sinks] in compliance with all project performance criteria. It shall inform the applicant and the executive board of its decision in writing immediately upon completion of the certification process. Decisions on the certification of emission reductions shall be published in a suitable manner[2].

The executive board shall issue CERs in respect of the certified emission reductions [and/or removals by sinks] resulting from a registered project for a specified verification period, in accordance with appendix D, and shall allocate such CERs to the registry accounts specified by [project participants] [Parties involved][4] provided that:

(a) The project participants were eligible to participate in CDM projects during the period;

(b) The share of proceeds has been provided to the executive board to cover administrative expenses and to the adaptation fund to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation[2].

(The following paragraphs refer to accreditation of operational entities.)

189. The executive board shall accredit operational entities [to validate, verify and/or certify CDM activities[2]] based on the criteria in appendix F [on operational entities[2]][4] [as well as relevant decisions by the [executive board][COP/MOP][2]]. [This accreditation by the executive board shall constitute the designation by the COP/MOP as stipulated in Article 12.5.[4]] [COP/MOP shall designate operational entities based on a recommendation by the executive board[2].]

190. [Designated[2]] Operational entities shall be responsible for carrying out their functions mentioned in this decision, its appendices and relevant decisions of the COP/MOP[6].

191. Designated operational entities shall meet the accreditation [criteria][standards] recommended by the executive board and adopted by the COP/MOP. The accreditation [criteria][standards] shall address, *inter alia*, issues such as[2]:

(a) Certification procedures[2];

(b) A system to demonstrate the application of certification procedures[2];

(c) A system for the control of all documentation relating to validation, verification and certification programme[2];

(d) A professional code of practice, appeal procedures, complaints procedures, etc.[2];

(e) Relevant expertise and competence[2];

(f) Independence[2]; and

(g) Insurance coverage[2].

(Note: Further consideration of [criteria][standards] may be required. Some elements are contained in appendix F.)

192. The executive board shall establish a surveillance programme to review the validation, verification and certification work of designated operational entities[2].

193. If the executive board finds a designated operational entity to no longer meet the accreditation [criteria][standards] or any applicable decision of the COP/MOP, it may to suspend or withdraw the designation of that designated operational entity[2]. The executive board shall, immediately, report any such decision to the COP/MOP and to the affected designated operational entity[2]. In this case, registered projects shall not be affected by the suspension or withdrawal of designation unless deficiencies identified in the validation report or verification report for the project constitutes the reason for the suspension or withdrawal of the designation[2].

194. The executive board may review the accreditation [criteria][standards], as appropriate.

(Note: One Party proposes that the certification process should be complemented, at the project level, by a system of guarantees against risks to ensure the continuance of mitigation effects during the specific period of certification.)

F. Issues related to compliance

195. (114) Option 1: Steps to address cases of non-compliance with the provisions of the CDM should be based on guidelines to be laid down by the COP/MOP in accordance with procedures defined under Article 18[7]. Issues arising shall be expeditiously resolved [through a general procedure applicable to the Protocol[4,7]] [through a specialized procedure[4]][4].

Option 2: Non-compliance issues arising from operation of CDM projects shall be resolved within the framework of the CDM as much as possible[6]. Only when the non-compliance is beyond the framework of the CDM, shall the issues be addressed in accordance with the non-compliance procedure under Article 18[6].

196. If a Party's consistency with the eligibility requirements is called into question [by the review process under Article 8[4]] [by other means[4]], the issue will be expeditiously resolved

[through a general procedure applicable to the Protocol[4]] [through a specialized procedure[4]] in accordance with procedures defined under Article 18[4].

(Note: The brackets in the above paragraph were submitted by the Parties as options.)

197. In instances of a dispute arising between Parties, transfers and acquisitions of CERs may continue to be made after the issue has arisen, provided that any such CERs may not be used by a Party to meet its commitments under Article 3 until the issue is resolved[7].

198. (115) In the case of a Party's non-compliance with its obligations resulting from the Protocol, and from its Article 3 commitments in particular, CERs acquired under the CDM should be invalidated, either in full or in part, and can not be counted as the fulfilment of assumed obligations to reduce greenhouse gas emissions[18].

199. If, in addition to the provisions of Article 6, paragraph 1 (c) or 4, a Party included in Annex I may or shall lose its eligibility to participate in the mechanisms when it is in non-compliance with all or specified provisions of Articles 5 and/or 7, a Party included in Annex I also shall lose its eligibility to participate in the mechanisms when it is in non-compliance with any provision of Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, or 11[20].

200. If, in addition to the provisions of Article 6, paragraph 1 (c) or 4, a Party included in Annex I may or shall lose its eligibility to participate in the mechanisms when it is in non-compliance with all or specified provisions of guidelines or modalities established, or with other decisions taken, by the COP/MOP pursuant to Articles 5 and/or 7, a Party included in Annex I also shall lose its eligibility to participate in the mechanisms when it is in non-compliance with any guideline, modality, rule or principle established, or decision or other action taken, by the COP/MOP pursuant to Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, 6, 11 or 12 or any principle, modality, rule or guideline established by the COP pursuant to Article 17[20].

G. Adaptation assistance

201. (117) An adaptation fund [shall be] [is[4]] established[31] to [, *inter alia*,[6.11.29]] [equitably[30]] administer the share of proceeds [used to assist with adaptation costs[3.11.30]] [to meet the costs of adaptation[6.11.29]] [devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation[4]]. The generation of funding for adaptation through this share of proceeds shall be additional to the current and future financing by Parties included in Annex I of adaptation activities under other provisions of the Convention and the Protocol[3].

202. Funds for assisting Parties in meeting the costs of adaptation shall be managed by [an existing institution to be determined by the COP/MOP[6.10]] [the entity entrusted with the

operation of the financial mechanism of the Convention[4,29] which shall ensure accountability and provide regular reports to the COP/MOP on its funding operations[4]. The administration of those resources will not be part of the CDM operational aspects[29].

203. (118) The special vulnerabilities and character of small island developing states shall be taken into account and provided for in the development of an adaptation fund and in all adaptation capacity-building processes[3].

204. (119) Option 1: Adaptation project activities and measures to be implemented under Article 12, paragraph 8, shall be guided by information from national communications and the [three-stage approach, as set out in decision 11/CP.1 (FCCC/CP/1995/7/Add.1)[10]] [relevant sections of decision 11/CP.1[4]].

Option 2: Parties not included in Annex I should identify adaptation projects for funding, and should follow a process of adaptation options identification[11]. Consideration of this aspect should be consistent with ongoing work on adaptation under the Convention[11]. A Party not included in Annex I that is particularly vulnerable to the adverse effects of climate change shall prepare a national adaptation programme, taking into account the distribution of actions over time and including estimates of the full cost, with its breakdown into sectors[18].

Option 3: The adaptation fund priorities of Parties not included in Annex I qualifying as "particularly vulnerable" to the climate change impacts will be established according to a vulnerability index set up by the Parties to the Protocol. Those Parties not included in Annex I which, in addition to qualifying as particularly vulnerable, have been generating CERs under the CDM, will have additional priorities to those established in the vulnerability index, in order to facilitate their access to adaptation fund resources[29].

Option 4: Parties not included in Annex I that consider themselves particularly vulnerable to the adverse effects of climate change and wish to receive funding to assist in meeting the costs of adaptation shall report on such effects and their vulnerability to these effects in their national communications[4].

205. Adaptation projects shall be subject to the same strict level of monitoring and reporting as CDM projects[22].

206. (121) [Adaptation[4]] project activities and measures [to be implemented under Article 12, paragraph 8[4]] [that help particularly vulnerable Parties not included in Annex I to adapt to the adverse effects of climate change] shall be [financed[4]] [financially assisted] by the adaptation fund [provided that the Party receiving such assistance confirms[3]] [only if they meet the following requirements[4]]:

(a) (b) They [are[3]] [shall be] country-driven and in conformity with the national strategies and priorities for sustainable development of the Parties concerned[4,10];

(b) They shall address the specific vulnerabilities identified in the recipient Parties' national communications[4];

(c) (a) They[[are[3]] [shall be] consistent with all] [do not contravene] [take adequate account of[4]] relevant international agreements and internationally agreed programmes of action for sustainable development[4,10];

(d) (c) They [are[3]] [shall be] implemented in a cost-effective manner[4,10].

207. Option 1: (122) The amount of adaptation assistance should not exceed a specified share of the total project cost, depending on the estimated adverse effects of climate change on the economy and the public[18].

Option 2: No determination of the amount of adaptation funding that can be received by a Party[3].

H. [Registries] [Registration[6]]

208. Option 1: Registration of CERs shall be in accordance with appendix D[6].

Option 2: Registries shall be established and maintained in accordance with appendix D[2].

I. Reporting by Parties

209. (123 bis) Parties participating in CDM project activities shall report to the [COP/MOP] [executive board[7]] on the progress and results of their project activities on a project-by-project basis[6], using a uniform reporting format to be adopted by the COP/MOP[6,11,13].

210. (124) Parties included in Annex I participating in CDM projects shall report on their CDM activities [to the COP/MOP[6]]:

(a) (a) Annually within the framework of their reporting commitments under Article 7, paragraph 1[10,18,24], specifying, in a standard format, *inter alia*:

(i) (i) New CERs issued to the Party as a result of CDM project activities during that year[2,7] (identified by serial number)[2] on a project-by-project basis[6,7]; and

(ii) (ii) Any CERs (identified by serial number) that have been retired that year[2].

(b) (b) Within the framework of their reporting commitments under Article 7, paragraph 2[10,18,24], specifying, *inter alia*, how the Party's CDM projects have assisted Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention[10].

(c) Quantifying the expected and actual contribution that acquisitions of CERs will make towards compliance with their quantified emission reduction and limitation commitments alongside the expected and actual contribution made by domestic efforts[3].

211. (125) [Parties not included in Annex I shall report on their activities under Article 12 in the context of their reporting commitments under Article 12 of the Convention, according to guidelines to be established by the [COP/MOP[24]] [COP[2]][24]] [Parties not included in Annex I participating in CDM projects shall report annually on their CDM activities to the executive board[7]]. This reporting shall include how they have assisted Parties included in Annex I in achieving compliance with their commitments under Article 3[10].

III. INSTITUTIONAL ISSUES

A. Role of the COP/MOP

212. (126) "The CDM shall be subject to the authority and guidance of the COP/MOP"[1,4,7,10,11,13].

213. (127) In relation to methodological and operational issues, the COP/MOP shall, *inter alia*:

(a) (a) Determine the "part of the quantified emission limitation and reduction commitments under Article 3"[1] which Parties included in Annex I can meet through CERs[10,24,29];

(b) (b) Elaborate, review and approve methodologies for determining baselines[4,13]; monitoring[4,13], verification[4,10,13], certification[4,10,13] and reporting[4,10,13] and issue technical guidelines [and reporting formats[6]] for their practical application[24];

(c) (c) "Ensure that a share of the proceeds from certified project activities is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation"[1,4,10,30] and determine that share[24,29];

(d) Decide to accept or invalidate the CERs acquired[6];

(e) (d) Determine eligibility criteria for adaptation under Article 12, paragraph 8[13,24], [3][designate the entity entrusted with the operation of the financial mechanism of the Convention and adopt modalities, procedures and technical guidelines[24]][3].

Option 1:

214. (128) In relation to institutional issues, the COP/MOP shall, *inter alia*:

(a) (b) Determine the modalities and procedures governing the operation of the CDM[4,24];

(b) (a) Define the terms of reference for[4,10,24,30], and establish[18,24], the executive board and, *inter alia*:

(i) (i) [Establish] [Approve[3]] rules and procedures for the preparation and distribution of the provisional agenda of executive board meetings and for presentations to be made to the executive board by Parties and accredited observers[20] as submitted to the COP/MOP by the executive board[3];

(ii) (ii) [When requested to do so by the executive board[3],] determine [conclusively[3]] the nature and extent of the supervisory role of the executive board over the CDM [3][and the implications of the subordination of the executive board to the COP/MOP[20]][3].

(c) (c) Designate [operational entities[10,18,22,24]] [on the basis of recommendations of the executive board[22]] [regional operational offices (clearing houses)[7]], or establish guidelines as a basis for delegating this function[24], and decide which functions they will carry out[10,18];

(d) (d) Disqualify, upon recommendation of the executive board, [designated[2]] operational entities from certifying emission reductions if the executive board concludes that the requirements for the certification of the emission reductions have not been fulfilled[10];

(e) (g) Establish a body to be responsible for sanctions and penalties for non-compliance in the framework of the Protocol and its mechanisms[18];

(Note: A group of Parties proposed that this issue should be addressed under the compliance section.)

(f) Establish sanctions and penalties for non-compliance in the framework of the Protocol and the CDM[7].

(g) Ensure equitable distribution of CDM projects down to the subregional level[30].

Option 2:

215. The COP/MOP shall, *inter alia*, determine the nature and extent of the supervisory role of the executive board, as referred to in Article 12, paragraph 4, including in[20]:

(a) Its ability to establish rules, guidelines, or procedures that elaborate on or implement decisions of the COP/MOP[20];

(b) Deciding on "appeals" taken from decisions or conclusions of the [designated[2]] operational entities and/or independent auditors referred to in Article 12, paragraphs 5 and 7, respectively[20];

(c) Playing any role (and, if so, what role) regarding initial or final determinations of whether a project actually is resulting in claimed CERs and, if not, what happens thereafter[20];

(d) Its limits with regard to general oversight of the activities of the [designated[2]] operational entities and/or independent auditors for the purpose of keeping the COP/MOP informed as to how activities are progressing under Article 12[20]; or

(e) Engaging in a combination of some or all of those roles, as well as others[20].

(Note: Saudi Arabia observes that the nature and extent of the supervisory role of the executive board will affect numerous decisions that should be made by the COP/MOP, including:

- *Provisions governing the frequency and location of ordinary meetings of the CDM executive board and who may call emergency meetings, as well as the circumstances in which emergency meetings may be held[20].*

- *Requirements concerning reporting to the executive board by the [designated[2]] operational entities and independent auditors, of their decisions or conclusions; whether Parties and other entities and persons should receive such reports; and whether, and in what circumstances, the reports should be accompanied by the record of information on which they are based and who should be entitled to receive copies of such record of information[20].*

- *Procedures for "appeals" e.g. if a decision of an [designated[2]] operational entity to certify, or not to certify, emissions reductions may be "appealed" to the executive board, who may take such "appeal" and the procedures therefore[20].)*

216. The COP/MOP shall, *inter alia*, determine the implications of the subordination of the executive board to the COP/MOP, including[20]:

(a) Whether 'appeals' may be taken from decisions of the executive board to the COP/MOP, which must be considered by the COP/MOP. Whether or not such 'appeals' are

allowed, it must be made clear that the COP/MOP is not prevented on its own initiative from reviewing, modifying, or overruling any decision or other act of the executive board[20].

(b) The respective roles of the SBI and the SBSTA should be established for cases in which the COPmoP is to review or consider an executive board decision, either on the initiative of theCOP/MOP or by reason of an "appeal"[20].

(c) Who may take such "appeals", if they are allowed, and on what types of issues[20].

(d) The time period in which such "appeals", if they are allowed, must be taken and the procedure for COP/MOP consideration of the "appeal"[20].

(e) If such "appeals" are allowed, or if the COP/MOP on its own initiative reviews or considers an executive board decision, the circumstances in which the decision might be suspended pending completion of COP/MOP disposition of the matter[20].

217. (129) Arbitration for disputes between Parties shall be undertaken in accordance with Article 14 of the Convention[7].

B. Executive board

218. (130) Option 1: [The executive board shall supervise[3,4,7,11,13,18,19,30] and be responsible for[3] [the CDM[11]] [the daily management of the CDM[3,7,18]] as a [separate standing body of the COP/MOP[4,7,13]] [independent body[3,18]]]. [The executive board shall supervise those project activities that are relevant to the CDM to ensure their conformity with provisions of the Convention, the Protocol and relevant decisions of the COP/MOP[31]]. The executive board shall be fully accountable to the COP/MOP[3,4,11,13] and shall carry out all instructions and all other functions assigned to it by the COP/MOP[10,13].

Option 2: The executive board shall be responsible for carrying out functions mentioned in this decision, its appendices, and relevant decisions of the COP/MOP[4].

219. (131) In relation to methodological and operational issues, the executive board shall, *inter alia*:

(a) (a) Define the areas from which projects can be included in the CDM and define the types of projects that can be included[12];

(Note: A group of Parties proposed that this issue may be covered under methodological and operational issues.)

(b) (b) Supervise CDM project activities to ensure that these are in conformity with the Convention, the Protocol and all relevant decisions by the COP/MOP[10,13];

(c) (c) Determine the criteria [and operational guidelines[7]] that the Parties shall use for establishing baselines[12] based on principles, modalities, rules and guidelines adopted by the COP/MOP[7];

(Note: A group of Parties proposed that this determination may need to be made within these principles, modalities, rules and guidelines.)

(d) (d) Ensure that information on baselines used for project evaluation, including standardized baselines, is publicly accessible[4];

(e) (e) [In so far as authorized by the COP/MOP[10]], provide guidance for public and/or private entity participants[4,10,13,30] following decisions of the COP/MOP[7];

(f) (f) Review reports submitted by [designated[2]] operational entities and provide synthesis reports to the COP/MOP[4,19] [including collated regional data[22]] [at regular intevals[22]] and make recommendations relating to the independent auditing and verification of project activities, as necessary[6];

(g) (g) Issue CERs on the basis of verification reports [submitted by designated operational entities[24]] [prepared by an accredited entity and submitted by a national designated entity from Parties[7]];

(h) (h) Publish, in a timely manner, information on transfers of CERs, including, *inter alia*, dates, project type, project start date, participating Parties and organizations, and quantity and prices of CERs transferred[7].

(i) The executive board of the CDM should see to the timely publication of information on trading in emission reductions carried out including, *inter alia*, dates, type of project, countries participating in the project, date of emission reductions traded, and the price of the transaction involving certified emission reductions[7].

(j) ((h)bis) Option 1: Receive validation and certification requests from the national authorities of Parties, select [designated[2]] operational entities to prepare technical reports on such requests, validate projects and certify emission reductions on the basis of those reports, and announce the validation of projects[29].

Option 2: Register the projects as CDM projects on the basis of validation reports submitted by the [designated[2]] operational entities[6].

Option 3: Receive CDM project proposals from national designated entities of Parties, validate projects on the basis of certification/verification reports submitted by entities and announce the validation of projects[7];

(k) ((h)ter) Maintain databases of projects and of emission reductions [achieved under the CDM[7]], including identification numbers, project description, baseline approaches, [designated[2]] operational entities involved and relevant dates[29];

(l) [4][(i) On the basis of a centralized trading mechanism, play a fiduciary role which will:

(i) (i) Guarantee a favourable commercial position to negotiate a fair price for the Parties involved[7];

(ii) (ii) Ensure the transparency and credibility of the trading process[7];

(iii) (iii) Reduce transaction costs[7];

(iv) (iv) Lower the environmental risk [and increase the geographic diversity of project location[3]] by means of a portfolio approach guaranteeing the effectiveness and credibility of the mechanism[7];][4]

(m) (j) Determine the [methodology used] [procedure to be followed[7]] for the transfer of CERs[12];

(n) (k) [[Determine] [Ensure[7]] the percentage of CERs] [Make recommendations to the COP/MOP on the share of proceeds from certified project activities[3]] that will be part of the adaptation fund and the manner in which the CERs will be transformed into financial resources[12];

(o) (l) Assist in arranging [multilateral[30]] funding[24,30] of CDM project activities as necessary, including acting as a project clearing-house and publishing summary information on proposed CDM projects in need of funding[24];

(p) (m) Assign, [as necessary] [where appropriate[3]], functions to other institutions under Article 12 within the framework provided for by the COP/MOP[10];

(q) (n) Define the roles of the multilateral agencies with experience in climate change, especially as regards development of the institutional capability required to promote broad participation by all Parties not included in Annex I[7].

(r) Propose to the first COP/MOP for its approval, rules and procedures for the efficient functioning of the executive board[3].

(s) ((q)bis) Propose to the COP/MOP the amount of charges that should be applied to the [CER transactions[29]] [CERs acquired by Parties included in Annex I participating in CDM projects[6]] in order to meet the administrative costs of the executive board[29].

(t) ((q)ter) Option 1: Propose measures to the COP/MOP that will provide potential participants with all information and capacity-building needed to allow them to make full use of the CDM[29].

Option 2: Establish, in a timely fashion well in advance of the operation of the CDM, a specific mechanism to assist Parties not included in Annex I with the capacity-building required to participate in CDM activities[3].

220. (132) In relation to institutional issues, the executive board shall, *inter alia*:

(a) (a) Option 1: [Evaluate the competence and[4]] accredit [operational entities] [certifying/verification operational entities[7]] [based on guidance from the COP/MOP[4,7,29,30]] [consistent with requirements set forth in appendix F[4]].

Option 2: [Coordinate the designation by Parties of the national operational entities, which will be in charge of the functions of the CDM in each Party[7,12]];

(b) (b) Provide guidance for the involvement of private and/or public entities in CDM project activities[11,30];

(c) Option 1: Undertake independent auditing and verification of the accredited operational entities[4,7,10,30]. The independent auditing and verification shall take place periodically [, through carrying out sample checks[10],] and, in addition, be based on cause[4]. If the CDM executive board finds any operational entity not in compliance with Article 12, paragraph 5, or any applicable decisions of the COP/MOP, it shall consider withdrawal of accreditation of the operational entity[4,10] and revoke, in accordance with a process to be determined by the COP/MOP, the accreditation of operational entities which fail to comply with modalities and procedures determined by the COP/MOP[4,7,10,30]. If the CDM executive board decides to revoke the accreditation of the operational entity, it shall report the decision to the COP/MOP and the operational entity[4]. In this case, any CDM project registered under the operational entity will still be valid unless its registration constitutes a reason for the withdrawal of the accreditation[4].

Option 2: If the executive board finds a designated operational entity to no longer meet the accreditation [criteria][standards] or any applicable decision of the COP/MOP, it may to suspend or withdraw the designation of that designated operational entity[2]. The executive board shall, immediately, report any such decision to the COP/MOP and to the affected operational entity[2]. In this case, a registered project shall not be affected by the suspension or withdrawal of designation unless deficiencies identified in the validation report or verification report for the project constitutes the reason for the suspension or withdrawal of the designation[2].

(d) Develop standards for the designation of operational entities and designate operational entities[4].

(e) (d) Maintain a publicly available list of [designated[2]] operational [certifying/verifying[7]] entities[4,7];

(f) (e) Report on its operations to each session of the COP/MOP[7,10,30];

(g) [4][(f) Administer the "CDM Equitable Distribution Fund"[16].][4]

221. A process for resolution of disputes shall be established for issues relating to [validation[10]] [registration[4]] [presentation[12]] by designated operational entities under appendix B and certification under appendix C[4].

222. (133) The executive board shall, in accordance with Article 12, paragraph 8, receive [a [4]] [the[10]] share of proceeds from certified project activities to cover its administrative expenses[4,7,13].

223. (134) The executive board shall consist of [x] [16[4]] members[4,10,31] and shall comprise

- Option 1: an equal number of representatives from Parties included and not included in Annex I[4,7,17].

- Option 2: a fair and geographically equitable membership[3,6,11,29,30,31] that reflects the unique representational balance established by the practice of the Parties (such as the COP Bureau)[3] and be functionally small[11,29].

- Option 3: two representatives from Asia, two representatives from the Americas, two representatives from Europe, two representatives from Africa and one representative from the island States, making up a total of nine members[7].

- Option 4: an equal number of persons from each of the five United Nations regional groups[20], but not less than two.

224. (134 and 135) Members of the executive board shall be elected by [the COP/MOP[7,20]] [Parties included and not included in Annex I respectively[4]] and shall be [proposed by the Parties[7]] [nominated by each of the five United Nations regional groups[20]]. Members shall be appointed for a period of [up to two[7]][two[4,30]] years[7,30], with the ability to serve a maximum of two consecutive terms[4]. In order to create staggered terms, four members from Parties included and not included in Annex I, respectively, shall initially serve for a period of one year[4].

225. (135) Members should possess appropriate technical expertise[3] and shall act in their personal capacities[4].

226. (134) A vacancy should be filled by the COP/MOP electing a successor who is nominated by the regional group that had nominated the person holding the position that became vacant[20]

227. Option 1: The COP/MOP shall select a Chairman and a Vice-Chairman of the executive board from among its members, with one of those officers being from a Party not included in Annex I[20].

Option 2: The executive board shall elect its own chair and vice-chair, with one being a member from a Party included in Annex B and one being a member from a Party not included in Annex B[4]. The chair and vice-chair shall alternate annually between members from Parties included and not included in Annex B respectively[4].

228. The executive board shall meet a minimum of three times a year[4].

229. (136) Decisions by the executive board shall be taken by consensus[4,20] whenever possible[3,4]. If all efforts at reaching a consensus have been exhausted, and no agreement reached, decisions [on matters of substance[4]] shall be taken by a two-thirds majority of the members [present and voting at the meeting[3]][, representing a majority of members chosen by and from among Parties included in Annex B and a majority of members chosen by and from among Parties not included in Annex B[4]][3,4]. Decisions on matters of procedure may be taken by a majority of members present and voting[4]. A decision concerning whether a matter may be treated as a matter of procedure shall be treated as a matter of substance[4].

230. (136) There should be a prohibition against the executive board taking a decision unless at least one member of the executive board from each of the five United Nations regional groups is present in person[20]. The executive board should not be allowed to delegate any decisions for which it is responsible[20].

231. All meetings of the executive board should be open to attendance, as observers, by all Parties and by all accredited observers[20]. The COP/MOP should establish rules and procedures for the preparation and distribution of the provisional agenda of executive board meetings and for presentations to be made to the executive board by Parties and accredited observers[20].

232. The full text of all decisions of the executive board should be kept by the secretariat and be communicated to each Party and to the categories of persons and entities that the COP/MOP believes should receive them[20]. The decisions should be translated and communicated to Parties in all six official languages of the United Nations[20].

233. (143) Option 1: The executive board may, as appropriate, make arrangements for administrative support necessary for its activities, under the guidance of the COP/MOP[4]. The [UNFCCC[4,30]] secretariat [within its functions outlined in Article 8 of the Convention[10]] [on

request by the executive board[5] and under the guidance of the COP/MOP[7]] [shall] [may[4]] [support the executive board as necessary[10]] [provide administrative and secretariat assistance to the executive board[4,7,24,30]]. This assistance could include compiling, synthesizing and disseminating information related to CDM activities, including in relation to Article 12, paragraph 6, and performing other secretariat functions as requested by the executive board[4].

Option 2: (143 and 137) The executive board should be supported by a dedicated secretariat, comprising of technical and administrative staff[22]. The executive board should be located in the secretariat of the Convention[7]. The Convention secretariat should be extended to accommodate this[22].

234. As appropriate, the executive board may draw on outside experts for dealing with technical and methodological matters[4].

C. Operational entities

235. (138) [Designated[2]] Operational [certifying/verifying[7]] entities shall:

(a) (a) ["Be designated by the COP/MOP[4,11,13,30,31]] [be designated by the COP/MOP or by a national or regional authority to which this function was delegated by the COP/MOP[24]] [be accredited by the executive board based on selection criteria contained in appendix F[4]];

(b) (b) Be supervised by the executive board[3,10,11,31] and fully accountable to the COP/MOP, through the executive board[3,13];

(c) (c) Be subject to modalities and procedures specified in applicable decisions of the COP/MOP[4,13,30];

(d) (d) Have no operational or financial links with [CDM project activities[3,10,11,18,30]] [the project activity[13]] and shall not have been involved in the identification, development, financing [or validation[11,24]] of [the project[11,24]] [CDM projects[4,7,10]]. The composition of any team should be approved by the Party not included in Annex I participating in the CDM project activity[11].

(e) ((d)bis) Prepare technical reports, upon which projects will be validated and emission reductions will be certified[29]

236. (139) Option 1: Entities shall be designated as operational entities only if they:

(a) (a) Provide for the necessary expertise and the necessary means to [validate[10]] [register[4]] project activities, to certify emission reductions[10,31] and to carry out sample checks if so mandated[10];

(b) (b) Work in a credible, independent, non-discriminatory and transparent manner and ensure, where appropriate, that the certification is based on internationally agreed standards[10];

Option 2: The Parties shall designate their national operating entities, and inform the secretariat of the Convention and the executive board[12]. The procedure to appoint the national operating entities will be the attribute of each Party, which can create a new entity or choose an existing entity for this role[12].

Option 3: Meet the accreditation [criteria][standards] recommended by the executive board and adopted by the COP/MOP[2].

237. (140) The functions of an [designated[2]] operational entity shall be to:

(a) (a) [Validate[10]] [register[4]] [present[12]] [certify and verify[7]] project activities under Article 12[4,10] in accordance with appendix B[4], on request of a project participant[10], to ensure that it meets the standards agreed by the COP/MOP[24];

(b) (b) Option 1: Verify emission reductions [and avoidance[30]] achieved by projects, [in accordance with appendix C[4]], and propose their certification by means of a verification report to the executive board[24];

Option 2: Certify [and verify[7]] emission reductions [and avoidance[30]] by sources [and/or enhancements of removals by sinks[4,7]] which have resulted from CDM project activities[4,7,11], in accordance with appendix C[4];

(c) (c) Transfer a share of proceeds to [...] to cover administrative expenses and to [...] to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation[4];

(d) (d) [Publish[10]] [Make accessible[4]] [report[7]] their decisions on the [validation] [certification/verification[7]] of project activities [in a suitable manner[10]] [in accordance with appendix B[4]] and related CERs to be issued[7];

(e) (e) Submit annual activity reports to the executive board [in accordance with the modalities and procedures for reporting[4]] [in accordance with appendix C[4]].

D. Parties

238. (141) Option 1: Each Party participating in the CDM project shall establish a national system for the monitoring, verification and reporting under the CDM[3,13,18,30], which may include

establishing an institution for coordinating and managing the governmental approving authority, steering committee, and expert body for settling of substantial matters[3,18,30].

Option 2: Each Party interested in progressing in this area, should develop its own legal and institutional framework related to the implementation of Article 12 in order to promote, evaluate, approve, verify, register at the national level and communicate relevant information to the [secretariat of the UNFCCC] [executive board[7]] about the projects to be included in the CDM[7,28].

Option 3: Each Party participating in CDM projects shall:

(a) Bear overall responsibility for approval and reporting of CDM projects[6]; and

(b) Be responsible for the public and/or private entities that may be involved in the CDM projects in accordance with Article 12[6].

239. The Party shall determine criteria for project eligibility on the basis of national priorities and strategies for sustainable development in conformity with decisions taken by the COP/MOP[13].

240. (142) A [designated[6]] national CDM authority shall:

(a) (a) Determine independent criteria for project eligibility on the basis of national priorities/strategies for sustainable development[7];

(b) (b) Evaluate projects using national criteria and international standards[7,29];

(c) (c) Approve projects and [formalize the official recognition of the designated national authority[7,29]] [submit them to the executive board[7]];

(d) ((c)bis) Endorse, at the national level, project information, in particular the baseline[29].

(e) ((c)ter) Submit, upon a proponent's request, project information required for validation and certification to the executive board[29].

(f) ((c)quater) Inform the executive board of the anticipated ending of a project and state the reason for the project's ending and the consequences for any CERs[29].

(g) ((c)quinquies) Bear overall responsibilities for reporting[6];

(h) (d) Promote broad participation by public, private and non-governmental organizations[7,29];

(i) (e) Coordinate international fora, including operational activities in verification and certification, with the executive board and the accredited entities[7];

(j) (f) Register individuals and organizations involved in the trading of CERs[7];

(k) (g) Register and account for national emission reductions reported to the executive board and traded by the executive board through its accredited entities[7];

(l) (h) Reconcile the national account and report it annually to the executive board[7];

(m) (i) Ensure fair distribution of the economic benefits among project participants[7].

E. Administrative support

241. (143) Option 1: The secretariat [within its functions outlined in Article 8 of the Convention[10]] [on request by the executive board[4] and under the guidance of the COP/MOP[4]] shall [support the executive board as necessary[10]] [provide administrative and secretariat assistance to the executive board[4,24]]. This assistance could include compiling, synthesizing and disseminating information related to CDM activities, including in relation to Article 12, paragraph 6, and performing other secretariat functions as requested by the executive board[4].

Option 2: The executive board should be supported by a dedicated secretariat, comprising technical and administrative staff[22]. The executive board should be located in the secretariat of the Convention[7]. The Convention secretariat should be extended to accommodate this[22].

242. (144) The secretariat shall keep a record of executive board decisions and communicate the full text of all decisions to each Party and to the categories of persons and entities that the COP/MOP believes should receive them[20]. Provision should be made for decisions to be translated and communicated to Parties in all six official languages of the United Nations[20].

243. (145) The[10] share of proceeds according to Article 12, paragraph 8, shall be used to cover all administrative expenses of the CDM, including the administration of the executive board and administration of the share of proceeds for adaptation[10].

(Note: Elements of the above paragraphs are also contained in the sections on the executive board and the share of proceeds.)

F. Review

244. (146) The COP/MOP shall:

(a) (a) Periodically review the [operations] [performance[7]] of the executive board, [[designated[2]] operational entities and entities for independent verification[4,18]] [the national designated entities and accredited operational certifying/verifying entities[7]] [all operations of the CDM[30]];

(b) (b) Review Article 12 modalities, procedures and technical guidelines five years after their adoption and periodically thereafter[10]. Any revision of these modalities and procedures will not have an impact on emission reductions already certified[10];

(c) (c) Periodically review the implementation of CDM project activities[11,13,22] and their geographical spread[11,22], and take appropriate action to promote the principle of equity[11,22];

(d) (d) Option 1: Review the allocation of the share of proceeds for adaptation projects five years after the adoption of these modalities and procedures[7,10];

Option 2: Periodically review the needs of Parties not included in Annex I which are[3] particularly vulnerable to the adverse effects of climate change for adaptation assistance under Article 12, paragraph 8[3,7];

(e) (e) Periodically review the capacity-building needs of developed country Parties to access the CDM[3].

APPENDICES TO PART THREE: CLEAN DEVELOPMENT MECHANISM

A. Baselines

245. The guidelines for establishing baselines [proposed here[2]] are closely linked to the establishment of (i) a project [validation[10]] [and[2]][registration[4]] [presentation[12]] procedure; (ii) a verification and certification procedure; (iii) guidelines for project monitoring systems; and (iv) a comprehensive and binding compliance regime[24]. They are to be complemented by[24] a [handbook[10]] [[UNFCCC[3]] baseline reference manual[24]] and together they:

(a) [Provide guidance to[24]] [Are to be used as the main reference by[10]] project [developers] [participants[2]] in setting[24,10] baselines; and

(b) [Ensure that the entities responsible for project [validation[10]] [and[2]] [registration[4]] [presentation[12]] and certification have an objective basis to judge the baselines [developed in] [proposed for[2]] the projects[10]] [provide an assessment tool for the [validation[10]] [registration[4]] [presentation[12]] of Article 12 project activities and for the verification and certification of emission reductions resulting from such projects[24].]

246. Option 1: Baseline should be: environmentally credible to ensure long-term benefits greater than what would happen otherwise; transparent and verifiable by a third party, be simple and provide a reasonable level of crediting certainty for investors[7]. The choice of approaches, assumptions, methodologies, parameters, and key factors for the determination of baselines shall be explained in a transparent manner by project proponents to facilitate the process of project [validation[10]] [registration[4]] [presentation[12]] and to facilitate replication.[10,24] Likewise, the sources of data used for baseline determination shall be indicated and the reliability of such data shall be assessed by project proponents[24].

Option 2: The choice of approaches, assumptions, methodologies, parameters, data sources and key factors for the determination of the project baseline and additionality shall be explained in a transparent manner by project participants to facilitate project validation and to facilitate replication[2].

247. Option 1: A baseline shall be based on plausible and verifiable assumptions and it shall be established by utilizing internationally recognized methodologies to the extent possible[24]. It is important to consider the regional differences for the baseline calculation, being for that pertinent the baseline adoption from the average of the technology types applied in the region[17]. For regional average calculation to be used for the clean development mechanism as well as for joint implementation, Annex II countries to the Convention will be excluded in the calculation[17]. To determine CO_2 equivalent metric tons reduction, regional average emissions are compared with the above-mentioned project technology emissions[17].

In projects where the energy efficiency of existing equipment (actual efficiency) is less than the efficiency specified by the manufacturer (maximum efficiency), the baseline shall be an appropriate value between actual and maximum efficiency[24]. The most plausible baseline shall be defined after careful consideration of the range of possible baseline options and after assessing the implementation barriers for each option[24].

Option 2: The baseline for a project to reduce emissions by an ***existing source*** should represent the lowest of[2]:

(a) Existing actual emissions prior to the project[2];

(b) The least-cost technology for the activity[2];

(c) Current industry practice in the host country or an appropriate region[2]; and

(d) The average for such an existing source in Annex II Parties[2],

taking into consideration trends in each of these options[2].

Option 2 continued: The baseline for a project to reduce emissions by a ***new source*** should represent the lowest of[2]:

(a) The least-cost technology for such a new source[2];

(b) Current industry practice in the host country or an appropriate region for new sources[2]; and

(c) The average for such a new source in Annex II Parties[2],

taking into consideration trends in each of these options[2].

Option 2 continued: [The baseline for a project to enhance removals by sinks should represent the highest of[2]:

...,

taking into consideration trends in each of these options[2].][2]

248. Option 1: National circumstances and relevant government policies shall be considered in baseline determination[10,24], such as information on adopted and planned legislation, sectoral reform projects, economic situation in the project sector, energy situation (production, consumption, prices, subsidies, trade)[10], power sector expansion plans[24].

In order to determine the baseline of a CDM project, the specific details in technical processing, energy efficiency, GHG emission and financial performance need to be identified based on the technical specification, standards, local fuel availability, and/or existing operational records of the facilities relating to GHG emission, through an on-site survey if necessary, and on the basis of the future trend perspectives of a given activity that would be most likely to occur in the absence of the CDM project[6].

In some cases it will be necessary to use projections from a specific sector of the economy[7].

Option 2: Relevant national policies and circumstances, including, *inter alia*, sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the project sector, shall be considered in the development of a project baseline[2].

249. Based on an assessment of the incentive structure resulting from baseline-guidelines for projects under Article 6 and Article 12, the COP/MOP shall consider measures to avoid disincentives for the adoption of government policies designed to contribute to the ultimate goal of the Convention and to encourage and reward such policies instead[24].

250. The baseline shall ensure that projects do not benefit from national policies which do not contribute to the ultimate goal of the Convention[2].

251. Option 1: Project developers may use their own methodologies provided that they demonstrate that these methodologies are justified and consistent with the principles set out in the COP decision on the mechanisms[10].

Option 2: Project participants may propose a new baseline methodology provided that they demonstrate that the proposed methodology is consistent, and approved in accordance, with provisions of this document and decisions of the executive board and the COP/MOP[2].

252. Option 1: Aggregate or standardized baselines (benchmarks) must be set to reasonable better-than-average values as specified in the [UNFCCC[3]] baseline reference manual and may be used only if previously approved through a process defined by the COP/MOP[24].

Option 2: A [standardized] [multi-project] baseline must be set to reasonable better-than-average current industry practice for existing or new sources as appropriate, or [x] per cent lower than a comparable validated project-specific baseline[2].

The executive board shall give priority to developing [standardized] [multi-project] baselines for projects below a specified size [whose estimated emission reductions are less than AAA tons per year or BBB tons over their crediting period][2].

Any project whose estimated emissions reduction exceeds CCC tons per year or DDD tons over its crediting period shall use a project-specific baseline[2].

[Handbook] [[UNFCCC[3]] [CDM[2]] reference manual]

253. The executive board shall publish a [UNFCCC] CDM reference manual which shall include current[2]:

(a) Requirements listing the information to be provided to support a project-specific baseline calculation methodology[2];

(b) Information on each approved [standardized] [multi-project] baseline[2];

(c) Monitoring guidelines[2];

(d) Unified reporting formats per project type, with specified data and reporting requirements[24];

(e) Criteria to determine whether a project assists Parties not included in Annex I in achieving sustainable development[24];

(f) Guidance on how to use sensitivity analysis[10];

(g) Best practice examples for the determination of baselines, per project type[24]; and

(h) [...][10]

254. The [UNFCCC] CDM reference manual shall be updated continuously to reflect decisions by the executive board and the COP/MOP[2].

255. Option 1: The executive board shall establish a process by which to improve methodologies for developing baselines[4].

The [Handbook[10]] [detailed [UNFCCC[3]] baseline reference manual[24]] could be developed from a number of sources, including individual Parties, research institutions, validators and international organizations[10]. Experts working within the framework of an internationally accepted process with a clear mandate of the subsidiary bodies might best carry out this work[10].

The executive board may draw upon outside organizations or entities to undertake appropriate functions to assist the executive board in its activities relating to the development and/or approval of baseline methodologies.[4]

Option 2: The [UNFCCC] CDM reference manual shall be updated by the executive board through[2]:

(a) Approval of new and revised baselines in response to project submissions[2]; and

(b) Baseline research and development, drawing upon organizations with relevant expertise as appropriate[2].

256. For each approved [standardized] [multi-project] baseline the [Handbook[10]] [[UNFCCC[3]] reference manual[24]] shall include the following elements[4]:

(a) The criteria a project shall meet to be eligible to use the [standardized] [multi-project] baseline (e.g. technology, sector, geographic area[2])[4];

(b) The [crediting period[2]] [interval between updates and revisions of the baseline, if necessary[4]] (i.e. time period during which CERs may accrue)[2];

(c) The approved baseline calculation methodology[2];

(d) [How the baseline methodology addresses potential project[2] boundary issues[4]] [standard leakage correction factors and the rules for their application[24]] [guidance on how to set projects boundaries and estimate leakage effects[10]] ; and,

(e) Any other information needed to apply the approved baseline methodology[2].

Approval of baseline methodologies

(Note: Parties may wish to consider moving this section to A. Project validation [/] [and[2]] registration.)

Option 1:

257. Project participants shall submit a project-specific or a multi-project baseline to an [designated[2]] operational entity as part of the registration process, in accordance with appendix B[4].

258. The baseline should be published on a web site before a contract is signed to provide an opportunity for a third party to challenge the proposed baseline[10,27].

259. Project-specific baselines:

(a) Proposals for project-specific baselines using first-of-a-kind methodologies shall be subject to approval by the executive board based on guidance contained in this appendix and

further elaborated by the COP/MOP as appropriate. The executive board shall make approved project-specific methodologies publicly accessible [through a handbook[10]] [through a [UNFCCC[3]] reference manual[24]][4].

(b) When a project-specific baseline is submitted for a project activity, the [designated[2]] operational entity shall confirm whether the proposed project-specific baseline contains the relevant elements identified in the section Project design document in appendix B[4]. If the proposed baseline does not contain these relevant elements, the [designated[2]] operational entity shall so notify the project participants[4].

(c) If the proposed baseline contains the relevant elements identified in the section Project design document in appendix B , the [designated[2]] operational entity shall determine whether the proposed baseline conforms to project-specific methodologies approved by the executive board, and whether such methodologies have been correctly applied[4]. If so, then the [designated[2]] operational entity shall approve the baseline for the purpose of registration under appendix B of that project activity[4].

(d) If the proposed baseline contains the relevant elements below identified in the section Project design document in appendix B but does not conform to approved project-specific baseline methodologies, then the [designated[2]] operational entity shall forward the proposed baseline to the executive board for consideration[4]. If the executive board approves the project-specific baseline methodologies, then it shall notify the [designated[2]] operational entity, which shall approve the baseline for the purpose of registration under appendix B of that project activity[4]. If the [designated[2]] operational entity determines that the baseline does not conform to the circumstances for that project activity, it shall notify the project participants accordingly[4].

260. Multi-project baselines:

(a) Proposals for first-of-a-kind multi-project baselines shall be subject to approval by the executive board based on guidance contained in this appendix and further elaborated by the COP/MOP as appropriate[4]. The executive board shall make approved multi-project baselines publicly accessible [through a handbook[10]] [through a [UNFCCC[3]] reference manual[24]][4].

(b) Multi-project baselines may be proposed by host Parties, project participants or other entities with the approval of the host Party[4].

(c) If a multi-project baseline approved by the executive board exists for a particular project category in the specific geographic area in which the project activity occurs, this approved multi-project baseline shall, except as provided by the relevant provisions, be used in the submission by the project participants[4].

(d) When a multi-project baseline approved by the executive board is submitted by a project participant for a specific project activity, the [designated[2]] operational entity shall review the multi-project baseline to ensure that that baseline conforms to the circumstances of that project activity[4]. If the [designated[2]] operational entity determines that that baseline conforms to the circumstances of the project activity, then the [designated[2]] operational entity shall approve the use of that baseline for the purpose of registration under appendix B of the project activity[4]. If the [designated[2]] operational entity determines that that baseline does not conform to the circumstances of that project activity, it shall notify the project participants accordingly[4].

(e) Project participants may choose not to use an approved multi-project baseline for a project in a category for which such a baseline exists, but in this event they shall provide sufficient information to support the use of an alternative baseline[4]. Project-specific baselines submitted under this paragraph shall be treated in the same manner as provided for in the previous paragraph[4].

261. The COP/MOP, in consideration of input provided by the executive board[24], shall determine when guidelines, [the [UNFCCC[3]] reference manual] [handbook[10]], the [unified] [uniform[2]] reporting format and any standardized baselines (benchmarks) shall be subject to periodic revisions, in order to adjust them to new realities, to reduce uncertainties, and to ensure the best possible environmental integrity of project activities under Article 6 and Article 12[24].

Option 2:

262. Each project design document shall include a proposed project-specific or [standardized] [multi-project] baseline and be submitted to a designated operational entity for validation in accordance with the provisions of appendix B[2].

263. If the designated operational entity determines that the proposed baseline methodology conforms to a methodology listed in the [UNFCCC] CDM reference manual and has been correctly applied, the designated operational entity shall approve the baseline and recommend registration in accordance with provisions in appendix B[2]. If the designated operational entity determines that the baseline calculation methodology is not appropriate for the proposed project or has not been correctly applied, it shall notify the project participants accordingly[2].

264. If the designated operational entity determines that the proposed baseline methodology is new, or is a new application of a project-specific or [standardized] [multi-project] baseline calculation methodology listed in the [UNFCCC] CDM reference manual, and the project participants wish to have this new baseline methodology validated[2]:

(a) The designated operational entity shall assess this new methodology using the guidance provided by this appendix and further elaborated by the executive board and COP/MOP[2];

(b) The designated operational entity shall recommend acceptance, modification or rejection of the new baseline methodology and submit its report to the executive board[2];

(c) The executive board shall publish the proposed new baseline methodology together with the recommendation of the designated operational entity and allow YY days for public comment[2];

(d) The executive board shall accept, accept with modifications, or reject the proposed baseline calculation methodology based on the information received and any independent research it deems appropriate[2]; and

(e) The executive board shall revise the [UNFCCC] CDM reference manual to reflect its decision, as appropriate[2].

Special methodological proposals

Regional average emissions by technology type[17]

265. For the calculation of the CERs, the procedure will be as follows[17]:

(a) The difference between project emission levels and the OECD average will be converted to CERs, for the benefit of the Party included in Annex I[17]; and

(b) The difference between the OECD average and the regional average will be converted to CERs, for the benefit of the Party not included in Annex I, which will form part of a future options system for the Party[17].

266. As an example: consider a power plant fuel conversion in Peru[17]. The Latin America average is 550 units[17]. The OECD average is 450 units and the CDM project emits 400 units[17]. The credits accruing from this project for a Party not included in Annex I would be 450 units - 400 units = 50 units[17]. The 100 units representing the difference between the Latin America average and the OECD average, which are not assigned to the Annex I country, are banked by the [recipient] [host[2]] country[17].

The barrier reduction approach[27]

267. The barrier reduction approach, which was developed by the International Energy Agency and adopted for JI projects in Uzbekistan's National Strategy Study, is based on the following principles[27]:

(a) The GHG emission reduction by a CDM project is certified only if it is additional, i.e. this reduction would not occur in the absence of the financial investment, technology transfer, or know-how transfer associated with the project[27].

(b) Projects directed at GHG emission reduction [or enhancement or removals by sinks[2]] face different barriers (technical, financial, organizational, legal, market, employee qualification, ecological, etc.) in the course of their implementation (see table below)[27].

(c) To meet the additionality criterion, the CDM project must reduce some of these barriers, at least one of which should be serious[27].

(d) Most of the possible barriers can be [broken down] [reduced[2]] by attraction of additional investment[27].

268. Initially a financial analysis is carried out assuming the availability of local financing without taking into consideration the revenue from the sale of the transferable [certified[2]] emission reduction units[27]. If the project has a negative net cost, it can be considered additional[27]. If the project appears to be financially viable, it is necessary to analyse potential barriers that inhibit implementation of the project[27]. When a barrier is identified, the cost of overcoming this barrier is estimated and included in the project financial analysis[27]. If the financial analysis incorporating the cost of overcoming all barriers indicates that the project is not viable, the project is feasible only with participation by external investors, which confirms the additionality principle for reducing the barriers identified[27].

Potential barriers to implementation of GHG emission reduction projects[27]

Potential barriers	Examples of barriers
Technological	Risks for provision of the technical service for equipment Risks for project realization
Organizational/legal	Risk of delay in beginning project realization Substantial obstacles for receiving of direct investment Subsidies for the natural gas or heat
Financial	Shortage of long-term capital High cost of the capital Exchange rate risks
Market	Raw material supply risks Vagueness of the price trends for the energy carriers
Employee qualification	Weak mastering of the technologies Shortage of qualified staff Shortage of information about the project possibilities
Ecological	Increase of air and water pollution Reduction of industrial waste

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B. Validation [/] [and[2]] registration

Project Design Document

Option A

269. All projects that are to be registered/validated shall be described in detail in a written project [proposal] [design document[2]] submitted to [the [designated[2]] operational entity[2]] [the executive board[6]].[4] The project [proposals] [design document[2]] shall include[4]:

(a) A letter from the designated point of contact in [each Party involved] [the host Party] indicating formal acceptance of the proposed project;[4] Participating entities shall submit a CDM project [proposal] [design document[2]] to their governments for approval. The governments of the participating Parities should approve the [proposal] [design document[2]] in accordance with the modalities and procedures adopted by COP/MOP.[6];

(b) A baseline for assessing emissions additionality and calculating emission reductions [3][and/or enhancement of removals by sinks][3] that has been developed in accordance with modalities and procedures specified in appendix A;[4]

(c) Estimated emissions [3][and/or removals][3] resulting from the proposed project activities;[4]

(d) Provisions for monitoring and reporting emissions by sources [3][and/or enhancement of removals by sinks][3] resulting from the project activity, in accordance with appendix C;[4] and,

(e) Specified project information that includes the location, name of participants, and a [technical[2]] description of the project.[4]

270. (86) The determination of whether a proposed project activity contributes to the sustainable development priorities of the Party not included in Annex I shall be ...

- Option 1: made solely by the Party not included in Annex I[4,6,7,11,13,19,29,32] and specified in its letter of endorsement[24]. This letter shall indicate how the project activity and its results:

  (a) (a) Are consistent with all relevant international agreements relating to sustainable development to which the Parties involved are a party[10];

(b) (b) Assist in achieving sustainable development[31], taking into account its economic, environmental and social conditions according to its own priorities and needs and the need to minimize adverse environmental, social and economic effects, taking into account existing guidance for sustainable development[10];

(c) (c) Contribute to the ultimate objective of the Convention[10].

- Option 2: Made by the Party not included in Annex I using procedures developed by the United Nations Environment Programme (UNEP) and the Commission on Sustainable Development (CSD) as they become available[18,27].

- Option 3: Made by the Party not included in Annex I using international guidelines, indicators and/or standards developed by the Parties to meet the sustainable development objectives of the Protocol as a whole by, for example, utilizing the best available environmental technologies[3].

Option B:

271. A project to be validated shall be described in detail in a project design document approved by [each Party involved] [the host Party] and submitted to a designated operational entity[2].

272. The [report[10]][part of the project design document] on the baseline shall provide the project validator with a complete understanding of the chosen baseline[10].

273. [The [baseline[10,24]] [project proposal[12,22]] shall be reported using the following format] [The contents and structure of the project design document shall be as follows[2]]:

(a) A letter from the designated point of contact in [each Party involved] [the host Party] indicating formal acceptance of the proposed project[2] including in relation to aspects of sustainable development;

(b) Goal and context of the project[10,24]
  (i) Overview of the project[2]
  (ii) Political and institutional context[12]
    - Congruence with the political standards of the host country for the sectors involved[12]
    - Respect for the host country's legal framework[12]
    - Promotion of active participation of the social actors involved in the design and execution of projects[12]

(c) Description of the project[10,24]

(i) Project purpose and project[2] boundaries[10,12,24,27]

(ii) Technical description of the [project[2]] [system to be adopted[10,24]] and its viability[22]

(iii) Information regarding project location and its region[10,24]

(iv) Key drivers affecting future developments[10,24]

(v) Socio-economic[12] [aspects[2]]

- Direct influence of the project on the socio-economic situation of the area of influence and the host country[12]
- [Diffusion of the project's scope beyond itself[12]] [Impact of the project beyond its project boundaries[2]]
- Additional effects (indirect) of the execution and functioning of the project[12]

(d) [Estimate of the baseline[10,12,24,22]] [Proposed baseline methodology[2]]

(i) Description of the baseline [method] [calculation methodology[2]] chosen[10,12,24];(in case of a [standardized][multi-project] baseline, please indicate the relevant section of the [UNFCCC] CDM reference manual)[2];

(ii) Justification indicating that the proposed baseline methodology is appropriate[2,10];

(iii) Justification of [proposed[2]] crediting [time] [period[2]][10,24] (i.e. time period during which CERs may accrue)

(iv) The estimated project lifetime[4];

(v) Any other information required to make fully transparent the application of the approved [standardized] [multi-project] baseline to the specific project[2].

(vi) Description of key [factors] [parameters and assumptions[2]] used in baseline estimate[4,10,12,24]

(vii) Data sources to be used to calculate the baseline emissions, such as historic data on emissions, variables and parameters used[2]

(viii) Historic emissions for the activity[2]

(ix) [Calculation of baseline estimate[10,12,24]] [Projection of baseline emissions and emissions reduction by year over the life of the project[2]]

(x) Sensitivity analyses[10]

(xi) Uncertainties[10,12,24] in a quantitative manner[10]

- data
- assumptions
- key factors
- other

(xii) Strengths and weaknesses of the proposed baseline methodology[10]

(e) Conclusions on the proposed baseline [estimate] [methodology[2]][10,24]

(f) Economic and financial [information[2]][12]

(i) Financial and economic analysis (internal rate of return, reserve funds, financial flow)[12]

(ii) Estimates of the costs of implementation and maintenance of the project [for the duration of the compromise] [over its projected lifetime[2]][12]

(iii) Sources of financing and evidence that the funding is additional[12]

(iv) [Confirmation that financing has been secured, except i][I[2]]n cases where assistance is being requested under Article 12, paragraph 6, the request for assistance is securing funding will be included[22]

(g) Other [information[2]][12]

(i) Contribution to the sustainable development of the host country[12] including sustainable development indicators[22]

(ii) Contribution to biodiversity (depending on the type of project)[12]

(iii) Technology transfers from the Party included in Annex I to the host country[12]

(iv) Confirmation of local stakeholder involvement[22]

(h) Option 1: Monitoring plan[2]

(i) Description of the project activity and the type[10];

(ii) The name(s) of the entity(ies) responsible for monitoring[4];

(iii) The data to be obtained from monitoring;[4]

(iv) Description of the information/data to be collected in order to calculate the emissions reduced or removed[10],

(v) Description of the methodology used to calculate the emissions reduced or removed, including any relevant emissions factors and their source, and the frequency of any monitoring or information/data collecting procedures used[10];

(vi) The methods of data collection, including sampling methods, and monitoring equipment to be used;[4]

(vii) The frequency of monitoring;[4]

(viii) How the monitoring data and any other information will be used to update the emissions [3][and/or removals][3] in the project case and the baseline case;[4]

(ix) Quality assurance and quality control provisions for the monitoring method;[4]

(x) Description of backup monitoring procedures should the proposed procedures; fail;[10]

(xi) An assessment of the precision, accuracy, reliability and timeliness of the proposed monitoring method;[4]

(xii) Any proposed equations to be used during certification for the calculation of CERs;[4] and

(xiii) Description of procedures for documentation of monitoring results[10].

Option 2: Monitoring plan[2]

(i) Relevant project performance indicators both within and outside the project boundary[2]

(ii) Data needed for the project performance indicators and assessment of data quality[2]

(iii) Methods to be used for data collection and monitoring[2]

(iv) Assessment of the precision, accuracy and reliability of the proposed monitoring method[2]

(v) Quality assurance and quality control provisions for the monitoring method, recording and reporting[2]

(vi) Description of how monitored data will be used to calculate the emissions reduced [or removed][2]

(i) References[10,24]

(Note: Further consideration may be required to identify elements specific for projects using [standardized][multi-project] baselines)

274. Guidelines for completing information in the project design document:

(a) Option 1: GHG emission levels in baselines shall be expressed in tons of CO_2 equivalent, based on 1995 IPCC GWP values[24].

Option 2: Baseline emissions, actual emissions, [baseline removals by sinks, actual removals by sinks,] leakage and emission reductions shall be expressed in units of [one[2]] metric ton of CO_2 equivalent emissions, calculated using the global warming potential (GWP) values defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5[4,10,24,24].

(b) Project participants should discuss to which extent national policies (especially distortionary policies such as energy subsidies, or incentives to forest clearing) influence the determination of the baseline[10]. Data used for the determination of baselines should be of highest quality available.[10]

(c) The emission level of the baseline estimate shall be broken down to individual, separate activities in accordance with the methodological approach used[10]. The report shall provide disaggregated activity data and emission factors for each individual reduction activity included in the project baseline estimate in accordance with the level of aggregation used for the baseline estimate[10].

Functions of Parties, designated operational entities and executive board

275. A Party not included in Annex I [will be required to undertake the following functions[4]] [shall[2]]:

(a) Designate a point of contact for the submission of project [proposals[4]] [a design document[2]] and develop procedures for its review and approval[2];

(b) Cooperate as appropriate with project participants in providing access to or generating necessary data for the formulation of baselines. These data may be supplied by other entities as appropriate[4];

(c) Consider the project [proposal] [design document[2]] to confirm that it assists in achieving sustainable development of the host Party[4];

(d) Provide to the project participants a formal letter of approval from the designated point of contact to demonstrate host Party approval of the project [proposal] [design document[2]], including its determination that the project [proposal] [design document[2]] assists in achieving sustainable development[4];

276. A Party included in Annex I [shall[2]]:

(a) Designate a point of contact for the submission of project [proposals] [design document[2]] and develop procedures for their review and approval[2]; and

(b) Provide to the project participants a formal letter of approval from the designated point of contact to demonstrate its acceptance of the project [proposal] [design document[2]].

Option A

277. (83) Option 1: (89) The [designated[2]] operational entity shall:

(a) (a) assess whether the baseline of the proposed project meets the criteria in appendix A[4.10]. This shall involve an assessment of the credibility of the baseline, the major risks [and scientific uncertainties[3]] regarding the emission reduction and potential leakage effects of the project[27];

(b) (b) assess the adequacy of the proposed monitoring plan by assessing its method, frequency and accuracy of measurement[24].

Option 2: A designated [[designated[2]] operational entity] [national entity[7]] shall prepare [and present[7]] a [validation[10]] [registration[4]] [presentation[12]] report [in accordance with appendix B[4]] on the project activity to the executive board[24].

Option 3: [The project shall be validated and registered at national level by a national committee[31]] [Accountability for approval and registration of projects shall rest with Parties[22]].

Option 4: Project activities shall be [validated[10]] [registered[4]] [presented[12]] by [designated[2]] operational entities[4,10], upon request of a project participant[10], in accordance with appendix B[4].

278. The designated operational entity will be required to undertake the following functions[4]:

(a) Receive the project [proposals] [design document[2]] from eligible project participants[4];

(b) Review the project [proposals] [design document[2]] supporting documentation once a request to validate[2] a CDM project activity has been received from the project participants, in order to confirm [whether[4]] [that[2]][4]:

(i) Voluntary participation has been approved by [the host Party] [each Party involved] in the form of a formal letter of approval[4];

(ii) (85 (a)) [It is approved by each Party involved[4,6,10,13,19,24]] [It meets the national eligibility criteria for CDM projects established by host Parties[7]] as indicated by a letter of endorsement[18,24]. A Party may develop its own internal mechanisms and criteria for project approval based on its domestic circumstances[4]. These mechanisms and criteria shall be made publicly accessible[4]. A Party may define priority sectors for the formulation of CDM projects[4,7]. [4]

(iii) It contributes to the sustainable development priorities of the Party not included in Annex I[3,4,7,11,13,18,24], [4] based on transparent and measurable criteria[30].

(iv) It is compatible with national priorities and needs[13] as determined by the host Party[3,11,13,18,24].

(v) (85 (b)) All public and/or private entities involved demonstrate their eligibility to participate in the CDM[10];

(vi) (85 (e)) The project [proposals] [design document[2]] contains [a baseline, developed in accordance with modalities and procedures specified in appendix A;[3,4,10,18,27]] [an emission baseline that is determined for the CDM project shall meet the criteria adopted by the COP/MOP[6]];

(vii) (85 (f) and (g)) The project activity would provide a reduction in emissions by sources, [3][or an enhancement of removals by sinks][3] that is additional to any that would occur in the absence of the proposed project activity, and contribute to real, measurable, and long-term benefits related to the mitigation of climate change[1,4,6,10,13,18,19,30];

(viii) Option 1: The project [proposals] [design document[2]] contains adequate provisions for monitoring and reporting emissions by sources [3][and/or removals by sinks][3] based on modalities and procedures specified in appendix C[4];

Option 2: (85 (j)) It provides a monitoring plan, which meets the approved criteria specified in appendix C, for the collection of data to track the performance of the project and, as appropriate, the baseline[4,24], as well as for the adequacy of the proposed monitoring plan by assessing its method, frequency and accuracy of measurement[7];

(ix) Any additional information is[2] required to demonstrate conformance with relevant modalities and procedures[4];

(x) (85 (g)bis)) Technology transfer in CDM project activities is additional to the commitments of Parties included in Annex II on technology transfer to developing country Parties[6] and provides access to the technology needed by the participating developing country Party[13].

(xi) Option 1: Public funds involved in the CDM project [are additional to[6]] [do not result in a diversion of[4,10]] ODA, GEF and other financial commitments of the developed country Parties[6]. Parties included in Annex I participating in any of the three flexible mechanisms shall give concrete information that their ODA flows are not declining as a result of their participation in any of the flexible mechanisms[26];

Option 2: (85 (i)) Funding [in exchange for CERs[7]] is additional to [commercially viable] [commercial[7]] investment[7,19] and [additional to[13,19,30]] [does not result in a diversion of[4,10]] funding provided through ODA[13,19,30], the GEF[13,19,30] and [other financial commitments of the Parties included in Annex I[13,19]] [other financial commitments of developed country Parties under the Convention and the Protocol and commitments under other relevant international conventions and their protocols[6]];

(xii) (85 (h)) Financing is secured (except in cases where assistance in terms of Article 12, paragraph 6, is being requested)[22];

(Note: A group of Parties proposes that this should be deleted because financing is separate from the content of the proposal and because CDM project activity status may assist in finding funding.)

(xiii) (85 (k)) Confirmation is provided that adequate local capacity exists or will be developed[22] to ensure the effective and ongoing operation of the project[3];

(xiv) (85 (l)) It provides an agreement on the sharing among participants of the CERs that will accrue and the payment of administrative expenses and the [likely[3]] contribution to adaptation assistance[27] to fulfil Article 12, paragraph 8[3].

(c) Ensure that proprietary information submitted in the project [proposals[4]] [design document[2]] is held in confidence[4].

(d) Register each CDM project activity that meets the requirements of sub-paragraph (c) above, as a prerequisite for certification and issuance of CERs accruing from that project activity[4]. Notification of this registered status will be made to the project participants, involved Parties, and the executive board upon completion of the [validation[10]] [registration[4]] [presentation[12]] phase[4].

(e) In the case that a project is not initially registered, inform the project participants and involved Parties of this decision[4]. This decision will explain the reasons for non-acceptance as well as any additional information that would be required in a revised submission of the project [proposals] [design document[2]][4]. Project developers shall identify the project boundary and, together with the [designated[2]] operational entity, agree on an estimate of the impact of project outside of the boundary[10].

(f) [Designated[2]] operational entities may accept revised project [proposals] [design document[2]] for review in the case that a project was not initially registered[4].

Option B

279. The designated operational entity selected by the project participants to validate the project shall review the project design document and supporting documentation to confirm that it meets the following requirements[2]:

(a) Voluntary participation has been approved by [the host Party] [each Party involved] in the form of a formal letter of approval[2];

(b) The project participants are eligible to participate in CDM projects[2];

(c) The baseline complies with modalities and procedures specified in appendix A[2];

(d) The project activity would provide a reduction in emissions by sources, [or an enhancement of removals by sinks] that is additional to any that would occur in the absence of the proposed project activity, and contribute to real, measurable, and long-term benefits related to the mitigation of climate change[2];

(e) Provisions for monitoring, verification and reporting of relevant project performance indicators are adequate and in accordance with appendix C;[2]

(f) Public funds involved in the project [are additional to] [do not result in a diversion of] ODA, GEF and other financial commitments of the developed country Parties[2].

(g) The project conforms to other requirements for CDM projects, as specified [2].

280. If the designated operational entity determines that the project, as documented, fulfills the requirements, it shall recommend the project for registration[2].

281. Designated operational entities shall ensure that proprietary information submitted in a project design document is held in confidence[2].

282. Option 1: The executive board shall accept or reject the project[24], based on the [recommendation[2]] [decision[2]] in the report[24] and other relevant information[2], and inform [the participants] [the designated operational entity[3]] whether the project may begin[2].

Option 2: The executive board [will be required to undertake the following functions[4]] [shall[2]]:

(a) Register validated projects at the request of the project participants or host Party[2]; in particular, on receipt of a validated project design document and at the request of the project participants,

(i) Publish the registration request and the validated project design document[2] and make a declaration, if necessary, on the consistency between the sustainability claims of CDM projects and the international agreements that deal with the issue of sustainable development[29];

(ii) Allow YY days for the submission of public comment on the project and take appropriate safeguards against misuse of this procedure[2];

(iii) Make and issue a decision regarding the registration of the project within ZZ days of the deadline for the submission of public comment[2]; and

(iv) Inform the project participants of its decision and provide reasons in case the registration request is declined[2].

(b) Maintain[2] a database of all registered CDM projects[4].

(c) Ensure that pertinent non-confidential information [on baselines and monitoring that are used in project [proposals] [design document[2]] are[4]] [on the project is[2]] maintained, updated and made publicly available[4].

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C. Monitoring, reporting, verification, certification [/] [and[2]] issuance of CERs

Monitoring

[Handbook] [[UNFCCC[3]] [CDM[2]] reference manual]

283. The [UNFCCC] CDM reference manual shall contain monitoring methodologies for different project types and good practice standards for each monitoring methodology. The [UNFCCC] CDM reference manual shall contain[2]:

(a) *[elements to be further defined]*

284. The [UNFCCC] CDM reference manual will be continuously updated to take into account changes in technologies and best practices through[2]:

(a) New and revised monitoring methodologies approved by the executive board in response to project submissions[2];

(b) Recommendations by designated operational entities for revisions to monitoring methods resulting from verification of existing projects[2];

(c) Research and development undertaken by the executive board drawing upon organizations with relevant expertise, as appropriate[2].

Reporting

Project participants

285. Option 1: The project participants will be required to report to the [designated[2]] operational entity at regular intervals on the results of project monitoring, including project data associated with reductions in greenhouse gas emissions by sources [3][and/or enhancements of removals by sinks][3], within the same boundaries as the approved baseline.[4] Only projects that have been implemented may be reported[21].

The project participants will be required to report to the [designated[2]] operational entity the estimated reductions in emissions by sources [3][and/or enhancements of removals by sinks][3] calculated against the approved baseline for the clean development mechanism project activity.[4]

(Reporting format)[4,21].

286. Option 2: The project participants shall provide[2]:

(a) A project design document to the designated operational entity for validation[2];

(b) A validated project design document to the executive board for registration[2];

(c) Documentation specified in the monitoring plan contained in the project design document registered by the executive board or requested by the designated operational entity for verification[2]; and

(d) A certification letter from a designated operational entity stating the emission reductions [and/or removals by sinks] achieved during the verification period to the executive board for issuance of CERs[2].

Reporting by designated operational entities

287. A designated operational entity shall provide to the project participants, as applicable[2]:

(a) A validated project design document for submission to the executive board for registration[2]; and

(b) A verification report and a certification letter, stating the emission reductions [and/or removals by sinks] achieved during the verification period, for submission to the executive board for the issuance of CERs[2].

Reporting by the executive board

288. The executive board shall make public non-confidential information from all project design documents submitted for registration, public comments received, verification reports, its decisions and all CERs issued[2].

289. The executive board shall report to each regular session of the COP/MOP on its activities, new projects registered, CERs issued and recommendations for consideration by COP/MOP[2].

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D. Registries

290. Option 1: Each Party [included in Annex I, with an emission limitation or reduction commitment inscribed in Annex B[4]] [included in Annex B[10]], shall establish and maintain a national registry[4,10,13] to ensure the accurate accounting of [initial[10]] assigned amount and track [changes to the Party's assigned amount[4]] [adjustments to it resulting from transfers and acquisitions of ERUs, CERs and AAUs[10]] [issuance, transfers, acquisitions and retirement of ERUs, CERs and AAUs[2]][4,10] to assist in determining that Party's compliance with its Article 3 commitments[10]. In addition, the secretariat shall hold a computerized central registry for the purposes of retiring assigned amount[10].

Option 2: A central registry shall be established with the aim of tracking the generation, transfer and retirement of AAUs, CERs and ERUs transferred under the mechanisms[3,30].

291. National registries shall be guided by transparency, integrity and consistency, where[10]:

(a) 'Transparency' relates to the need to ensure that Parties will allow public scrutiny of their registries, in a clear and comprehensive way, in order to facilitate trades, increase market efficiency, and ensure proper supervision and monitoring[10];

(b) 'Integrity' relates to the need to ensure that all transfers having an impact on the Parties' assigned amount are reflected in their registries, and that no relevant information goes unreported[10]; and

(c) 'Consistency' regards the need to ensure that all national registries will meet basic requirements, so that tracking and monitoring of ERUs, CERs and AAUs is facilitated and assured[10].

292. Each Party shall identify an organization (government or private) to maintain the Party's national registry on behalf of the Party and perform the necessary functions (the registry 'administrator')[4].

293. Registries shall contain the relevant publicly accessible minimum data elements, described in annex Y of this appendix[4].

294. Registries shall be kept in the form of [computer databases[4,19]] [a computer accounting system[10]][4]. Each CER shall be held in an account in a registry[4]. The design of registries shall be compatible [and trades will be recorded in a standardized electronic format[10]] so that transactions can occur [instantaneously[4]] [in near real time (maximum one working day)[10]], and so that each CER is only held in one account and in one national registry[4,10]. The format of

these computer databases shall conform to the guidelines contained in annex W *{to be elaborated at a future date}* of this appendix[4].

(Note: Australia et al. observe that Parties may wish to further consider in which registries CERs may be held.)

295. (175) [10][Any two or more Parties may voluntarily maintain their registries in a consolidated system, within which each registry would remain legally distinct[4].][10]

296. When a decision is made to issue a CER, a system administrator working under the authority of the [executive board[4]] [secretariat[4]] shall assign it a unique serial number[4].

297. Serial numbers shall ensure that each CER is unique[4,10] and shall be constructed in accordance with section B in annex Y of this appendix[2].

298. Each account shall contain information in accordance with section A of annex Y of this appendix[2].

299. Where a Party included in Annex I, with an emission limitation or reduction commitment inscribed in Annex B, elects to authorize domestic legal entities to hold CERs in the Party's national registry, each such holder of CERs shall be required to have a separate account within its national registry[4]. However, each unit shall be registered in only one account in one national registry[10].

300. Transfers or acquisitions between Parties shall result in the removal of units from one Party's national registry into that of another[10].

301. A record of all transactions involving an account established in a given national registry shall be kept in the national registry[10] in accordance with section C of annex Y of this appendix[2]. Information concerning the date of every transfer from an issuing Party's national registry, should be attached to every [AAU[10]] [CER[2]] transferred from the issuing Party's registry[10].

(Note: The European Union et al. note that the necessity of date information depends on the specific liability rules adopted.)

302. [Each national registry of a Party included in Annex B shall include a dedicated retirement account for each commitment period to identify the ERUs, CERs and AAUs used by the Party for the purposes of demonstrating compliance with their Article 3, paragraph 1, obligations[4].] [In addition to national registries, the secretariat shall hold a computerized central registry[10]. A retirement account for each Party included in Annex I should be established in this central registry[10].] Parties shall retire ERUs, CERs and AAUs into this account to cover their

emissions for the purpose of compliance with their commitments under Article 3[4.10]. Such units cannot be further traded[4.10].

303. The expert review under Article 8 shall review the safety and integrity of national registry systems[10]. Safety and integrity of the national registries system shall be provided for through specific provisions controlling the implementation of relevant provisions in this appendix[10].

Annex Y[4]

PUBLICLY ACCESSIBLE INFORMATION FROM A PARTY'S NATIONAL REGISTRY[4]

I. MINIMUM DATA ELEMENTS IN A PARTY'S REGISTRY[4]

304. Except where noted, the following data elements shall be stored in a Party's national registry[4].

A. Account Information[4]

(Note: Australia et al. observe that, at a minimum for each Party's registry, this would include an account containing the Party's serialized assigned amount and a retirement account for each commitment period to hold assigned amount retired from use to demonstrate compliance with the Party's Article 3.1 commitment. In addition, where an Annex B Party authorizes legal entities to hold assigned amount in their national registry, the assigned amount must be reflected in an account established within the national registry for each assigned amount holder.)

305. The name of each account in the registry[4,10]. This corresponds to the following field of data in the relational database: account name[4].

306. The number of each account[4]. A unique number would be assigned to identify each account and in which registry the account is held[4]. Where appropriate, the account number would use the two-letter codes (ISO 3166) defined and maintained by the International Organization for Standardization[4]. Account numbers would begin with the code identifying in which registry the account is held and be followed by a number, unique when combined with the registry code (e.g. account number US-1009)[4]. This corresponds to the following field of data in the relational database: account number[4].

307. The type of each account[4]. This would identify the type of account (e.g. retirement account)[4]. For retirement accounts, the compliance period, for which units held in the account are being used, would also be identified[4]. This corresponds to the following fields of data in the relational database: account type, compliance period[4].

308. The representative for each account[4,10]. This would identify the individual person representing the government, or where applicable, the legal entity holder of the account[4]. The first and last representative name would be identified[4]. This corresponds to the following field of data in the relational database: representative name[4].

309. An identification number for each account representative[4]. A unique number would be assigned to identify each account representative and in which registry the representative holds an account(s)[4]. This corresponds to the following field of data in the relational database: representative identification number[4].

310. Contact information for the account representative[4,10]. This would include the mailing address, phone number, fax number and/or email address of the account representative[4,10]. This corresponds to the following fields of data in the relational database: representative mailing address, phone, fax and email[4].

B. Assigned amount information[4]

(Note: Australia et al. observe that this would include the entire assigned amount held in each account, represented as serialized units. Each serial number would be unique and identify the commitment period for which the unit was issued, the country of origin, and, for CERs, the project identifier (e.g. 1-BO-1643-14). Serial numbers could be stored in a block, represented by start and end numbers. For ease of data management in a database format, it would be useful to store these pieces making up the serialized unit in separate fields (i.e. associated commitment period, country of origin, starting serial number, ending serial number, and project identifier).)

Option 1:

311. The commitment period associated with each block of assigned amount[4]. This commitment period code should be a number which identifies the commitment period for which the unit or block of serial numbers is issued (e.g. the first commitment period, 2008-2012, would be identified by '1')[4]. This corresponds to the following field of data in the relational database: associated commitment period[4].

312. The country of origin[4]. For CERs, the country of origin would be the host Party for the project[4]. The country of origin code shall be two letters in length and use the two letter codes (ISO 3166) defined and maintained by the ISO for every country of the world[4]. This corresponds to the following field of data in the relational database: country of origin[4].

313. The numerical starting serial number and ending serial number for the block of assigned amount[4]. For a single unit, the starting and ending serial number will be the same[4]. This corresponds to the following fields of data in the relational database: starting serial number, ending serial number[4].

314. A code identifying the project for which the units were issued[4]. For each issuance of CERs pursuant to Article 12, a numerical project identifier will be assigned[4]. Units issued at a later date, but from the same project, will have a different project identifier[4]. This project

identifier code will be a unique number when combined with the country of origin code[4]. This corresponds to the following field of data in the relational database: project identifier[4].

Option 2:

315. The serial number shall be constructed so that the first field identifies the Party of origin, the second field identifies the relevant commitment period, and the third field identifies the CER[10]. All CERs shall have the final suffix number "2" to distinguish them from ERUs and AAUs[10].

(The European Union et al. note that the Party identifier, contained in the first field, could be attributed to each Party according to the order in Annex B of the Protocol.)

C. Transaction information[4]

(Note: Australia et al. observe that transactions include the following activities: issuance of assigned amount in the form of CERs pursuant to Article 12 and movement of assigned amount from one account to another within a registry or between registries (including movement of units into the retirement account in order to demonstrate compliance with a Party's Article 3.1 commitment).)

316. A unique transaction number[4]. Each transaction in a registry would be assigned a unique transaction number[4]. This corresponds to the following field of data in the relational database: transaction number[4].

317. A code identifying the type of transaction[4]. Each transaction would be assigned a transaction type[4]. For example, a code 'IC' would indicate issuance of CERs pursuant to Article 12 and a code 'RT' would indicate a transfer into the retirement account[4]. This corresponds to the following field of data in the relational database: transaction type[4].

318. The date of the transaction[4]. The date of each transaction would be stored[4]. This corresponds to the following field of data in the relational database: transaction date[4].

319. The accounts involved in the transaction[4]. For each transaction, the transferor and transferee account numbers would be stored[4]. This corresponds to the following fields of data in the relational database: transferor account number and transferee account number[4].

320. The status of the transaction[4]. For each transaction a code shall be stored indicating whether the transaction is pending or whether the receiving registry/account has accepted or rejected the transfer[4]. This corresponds to the following field of data in the relational database: transaction status[4].

D. CDM project information[4]

(Note: Australia et al. observe that a registry will include the following information for any CDM projects that have generated CERs pursuant to Article 12.)

321. The name of the project[4]. This corresponds to the following field of data in the relational database: project name[4].

322. The location of the project[4]. This corresponds to the following field of data in the relational database: project location[4].

323. The year of issuance of CERs[4]. This is the year in which the CERs are issued[4]. Note that each year of issuance of units from the project would receive a new project identifier[4]. This corresponds to the following field of data in the relational database: year of issuance[4].

324. An Internet address where the project report can be downloaded[4]. For each issuance of CERs pursuant to Article 12, a registry shall store the uniform resource locator (URL) address where the project report can be downloaded[4]. This corresponds to the following field of data in the relational database: report link[4].

325. The year of project registration[4]. This corresponds to the following field of data in the relational database: year of project registration[4].

326. The [designated[2]] operational entity involved in certification of CERs[4]. This corresponds to the following field of data in the relational database: operational entity[4].

II. PUBLIC ACCESSIBILITY[4]

327. Option 1: Each registry shall provide a publicly accessible user interface that allows interested persons to query and view non-confidential information contained within the registry[4]. A registry containing the minimum elements outlined in this annex should allow interested persons to retrieve a variety of reports, including, but not limited to, the following[4]:

(a) The current account balance and holdings of account holders within the registry[4];

(b) The quantity of active (i.e. non-retired) CERs within a registry[4];

(c) A list of CERs retired for compliance purposes for each commitment period[4]; and

(d) A list of any changes, and reasons for the changes, to holdings of CERs[4].

Option 2: The registry - including account holdings and name, address and identity of named representatives of accounts - shall be publicly accessible[10].

328. Parties shall be responsible for providing basic information on how to use their national registry system[10].

APPENDICES TO PART THREE: CLEAN DEVELOPMENT MECHANISM

E. Procedures for the operation of the executive board

[Provisions are included under "executive board" in the institutional issues section.]

F. Guidelines for operational entities

[to be further defined]

Organizational requirements of an [designated[2]] operational entity

329. An [designated[2]] operational entity shall:

(a) be a legal entity (either a domestic legal entity or an international organization) and shall provide documentation of this status to the executive board

(b) have the requisite financial and other resources needed to carry out its functions

(c) have sufficient expertise for performing its functions in one or more types of project activities

(d) have management that has overall responsibility for the entity's performance and supervision of the implementation of the entity's functions including management reviews, and shall provide a list of all board members and senior officers to the executive board

(e) be impartial, free from any commercial, financial and other conflicts of interests that might influence its functions.

330. [Designated[2]] Operational entities shall not participate in development, promotion, financing or implementation of any CDM project.

Operational requirements of an [designated[2]] operational entity

331. [An[4]][A designated[2]] operational entity shall conduct registration of CDM projects and certification and issuance of CERs in accordance with Article 12.5 and the modalities and procedures in this decision and its appendices.

332. [An[4]][A designated[2]] operational entity shall have documented internal procedures for carrying out its functions. Such procedures shall include, among others, procedures for the allocation of responsibility within the organization and procedures for handling complaints. These procedures shall be publicly available.

333. When [an[4]][a designated[2]] operational entity decides to subcontract work to an external body or person, it shall do so on the basis of a written agreement covering the arrangements including confidentiality and conflict of interest. The [designated[2]] operational entity shall remain fully responsible for such subcontracted work. The [designated[2]] operational entity shall also report its use of the subcontractor to the executive board.

334. [An[4]][A designated[2]] operational entity shall establish and maintain procedures to control documents and data, including information about its procedures, fees charged and a directory of CDM projects it has registered and their participants. It shall maintain a records system to demonstrate that functions mentioned in this decision, its appendices and relevant decisions of COP/MOP, have been effectively carried out. The records shall include application and evaluation reports related to CDM project proposals/project activities.

335. [An[4]][A designated[2]] operational entity shall submit annual activity reports to the CDM executive board in a format approved by the executive board. The documentation and records system referenced in the previous paragraph shall form the basis for the annual report.

336. An [designated[2]] operational entity shall have adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants and will follow any procedures in this regard established by COP/MOP. Except as required in the applicable procedures contained in COP/MOP decisions or by law, it shall not disclose information obtained from CDM project participants marked as proprietary or confidential, where such information is not otherwise publicly available, without a written consent of the provider of the information. Emissions data or other data used to determine emissions additionality shall not be considered confidential.

G. Disbursement of the share of proceeds

[This issue is currently addressed in the main text.]

H. Adaptation

[This issue is currently addressed in the main text.]

PART FOUR

EMISSIONS TRADING

(Note: Article 17 states that the COP shall define the relevant principles, modalities, rules and guidelines for emissions trading. Submissions ascribe functions to the COP and/or the COP/MOP. The brackets "[COP] [COP/MOP]" have therefore been used throughout this section to highlight the need for clarification. Where a Party proposes one or the other option, this has been indicated using the superscript code of sources.)

I. NATURE AND SCOPE

[A. Purpose]

337. (147) "The Parties included in Annex B may participate in emissions trading for the purposes of fulfilling their commitments under Article 3. Any such trading shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments under that Article."[1,11,13] Any such trading is only an instrument for transfer and acquisition between Parties included in Annex B of part of the assigned amount under Article 3[6]. Such transfer and acquisition shall be transparent and in compliance with the relevant provisions of the Protocol.[6]

338. (148) "... any part of an assigned amount, which a Party acquires from another Party in accordance with the provisions of ... Article 17 shall be added to the assigned amount for the acquiring Party."[1] "... any part of an assigned amount, which a Party transfers to another Party in accordance with the provisions of ... Article 17 shall be subtracted from the assigned amount of the transferring Party."[1][4]

(India requested that "the following text must be added": "The purpose of "emissions trading" under Article 17 is to enable a Party included in Annex B to transfer a part of its assigned amount of emissions to another Annex B Party for implementing commitments in Article 3, according to which Parties included in Annex B shall, individually or jointly, ensure that their aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A of the Protocol do not exceed their assigned amounts. An Annex B Party may transfer a part of its assigned amount to another Annex B Party under Article 17, if the transferring Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment thereby resulting in a part of the assigned amount of emissions not being used. This part of the assigned amount, which has not been used because of emissions having been limited and reduced below the assigned amount of emissions, represents the difference between the assigned amount of the Party and its domestic emissions. Such part of the assigned amount, not used by the transferring Annex B Party,

may be transferred to another Annex B Party seeking to acquire a part of an assigned amount for offsetting domestic emissions exceeding its assigned amount of emissions.")

[4][B. Principles

(Note: Please see note at the end of section B.)

339. An Annex I Party may transfer under Article 17 only the portion of its assigned amount that is surplus to its actual emissions after having implemented domestic policies and measures during the commitment period[13].

340. (149) In their actions to achieve the purpose of emissions trading, the Parties shall be guided [by Article 3 of the Convention and[10]][18], *inter alia*, by the following considerations[10]:

(a) (b) [10][Equity[3,11,13,19]: Equity between developed and developing country Parties[13], including equity with respect to per capita greenhouse gas emissions, wherein developed countries must contract greenhouse gas emissions per capita and developing countries coming on a converging path[13], so as to avoid perpetuating existing inequities between Parties included in Annex I and developing country Parties[11,13];][10]

(b) (c) Climate change effectiveness[3,10,11,13,19]: Climate change effectiveness must be in terms of real, measurable and long-term benefits related to mitigation of climate change[10,11,13]. Overall emissions reductions must not be lower than would otherwise be the case[10];

(c) (d) Cost-effectiveness: In accordance with the principle of cost-effectiveness global benefits are to be achieved at the lowest cost[4,10,19];

(d) (e) Recognizing that the Protocol has not created or bestowed any [right, title or entitlement[6,11,13]] [holding, goods, commodity or proprietorial facility of any nature to the participating Parties[13]] to Parties included in [its[2]] Annex B[6];

(e) (fbis) Ensuring that the Protocol has not created an international market system or regime[6];

(f) (g) Transparency[19];

(g) (i) Fungibility/non-fungibility[2]: Option 1: There is no fungibility [among the three mechanisms of the Protocol[6]] [between assigned amount, ERUs and CERs[13]].

Option 2: Acquired AAUs, ERUs and CERs can be used to fulfil a Party's own obligations or be the object of further trade[18,19,24].

Option 3: Parties may exchange AAUs, ERUs and CERs once the [COP] [COP/MOP[3]] has elaborated rules and procedures to ensure the effective equivalence in quality of AAUs, ERUs and CERs, through for example, establishing exchange rates or discounting mechanisms that aim to preserve the environmental effectiveness of developed country Parties' Article 3 commitments[3].][4]

(India requested that "the following text must be added":

** Before para. 339: "'Emissions trading' under Article 17 between Annex B Parties is unlike the other mechanisms. It is the only mechanism which is not project based. There should be a separate decision on Article 17. Unlike the other mechanisms, decisions on the principles, rules, modalities and guidelines related to Article 17 have to be taken by the Conference of the Parties to the Convention."*

** "The principles for 'emissions trading' under Article 17 and related other basic elements must be decided first and formulated accordingly. The methodological and operational issues must be guided accordingly."*

** In place of para. 339: "An Annex B Party may transfer a part of its assigned amount to another Annex B Party under Article 17, if the transferring Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment thereby resulting in a part of the assigned amount of emissions not being used. This part of the assigned amount, which has not been used because of emissions having been limited and reduced below the assigned amount of emissions, represents the difference between the assigned amount of the Party and its domestic emissions. Transfers and acquisitions under 'emissions trading' in Article 17 pertain only to a part of the assigned amount which has remained unused on account of the emissions having been limited and reduced below the assigned amount of emissions. Only the excess limitation and reduction of emissions by an Annex B Party, resulting in the prevention of a part of its assigned amount of emissions, and nothing else, can be transferred and acquired under Article 17. Nothing else can be transferred and acquired under Article 17."*

"The assigned amount of emissions is the quantified greenhouse gas emission commitment of Annex B Parties for the commitment period from 2008 to 2012, which shall be equal to the percentage inscribed for it in Annex B of its aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A of the Protocol in 1990, or the base year or period determined in accordance with the provisions of the Protocol, multiplied by five. The assigned amount represents the quantified emission limitation and reduction commitment of each Annex B Party. Such part of the assigned amount, not used by the transferring Annex B Party, may be transferred to another Annex B Party seeking to acquire a part of an assigned amount for offsetting domestic emissions exceeding its assigned amount of emissions."

"The assigned amount, the ERUs and the CERs are unlike concepts. The CER is a certification of the emissions reduced from a certified CDM project activity funded by a developed country in a developing country. The ERU is a certification of the emissions reduced from joint implementation of projects between developed country Parties under Article 6 because of such project activity being a lower cost option for reducing emissions compared to domestic policies and measures for limiting and reducing an equivalent amount of emissions. The assigned amount of emissions is the emission commitment for the commitment period. The Protocol provides for emission reductions resulting from Article 6 projects to be transferred between developed country Parties as emission reduction units, as well as transfers of part of an assigned amount among developed country Parties on fulfilment of necessary conditions under Article 17, but the Protocol does not provide for transfers of certified emission reductions resulting from CDM project activity."

"'Emissions trading' under Article 17 between Annex B Parties cannot create or bestow any right, title, holding, entitlement, goods, commodity or proprietorial facility of any nature to the participating Parties. 'Emissions trading' under Article 17 is only for accounting of transfers and acquisitions of parts of assigned amounts between Annex B Parties for fulfilling their commitments under Article 3."

** In para. 340 (a): "Transfers and acquisition of part of assigned amount under 'emissions trading' in Article 17 should result in contraction of emissions among developed country parties leading to per capita equity in distribution of emissions between developed and developing countries. Equal per capita emission levels is an equitable norm. The per capita criterion is central to the determination of emission entitlements. Per capita emission levels provide a direct measure of human welfare for economic and social development and poverty eradication. It must be ensured that 'emissions trading' under Article 17 does not have dormant any possibility or potential of freezing or perpetuating past and present inequities between developed and developing country Parties." (India requested that, with the aforementioned insertion, the present portion attributed to India in this para. may be deleted.)*

C. Supplementarity

[4] Limits on acquisitions

341. (150) Option 1: No elaboration of the term "supplemental"[4].

Option 2: Parties included in Annex I shall not fulfil their obligations under Article 3 primarily through extraterritorial means[5]. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms in circumstances where it has failed to demonstrate that its domestic efforts

form the primary means of achieving its quantified emission reduction and limitation commitment[3].

Option 3 (i): Net acquisitions by a Party included in Annex I for all three mechanisms together must not exceed the higher of the following alternatives:

(a) (a) 5 per cent of: its base year emissions multiplied by 5 plus its assigned amount

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(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');[10]

(b) (b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount.[10]

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8[10].

Option 3 (ii): The overall 'cap' on the use of the three mechanisms should not exceed 25-30 per cent as a maximum[20].

Option 4: Access to Article 17 by a Party included in Annex I is contingent on [satisfaction of prescribed domestic effort in fulfilment of commitments[3,6,11]] [domestic policies and measures being the principal means of achieving its quantified emission limitation and reduction commitments[13]] under Article 3[3,6,11,13]. [A concrete ceiling for the total assigned amount acquired from the emissions trading under the Article 17 shall be defined in quantitative and qualitative terms based on equitable criteria[6]] [A quantified ceiling on the emissions limited and reduced through the mechanisms shall be defined. Commensurate non-compliance processes must be prescribed[13]].

Option 5: It is necessary to set limits on the use of mechanisms to meet emission targets in the first commitment period. However, if objective criteria to prevent hot air are established, it might be reasonable to remove limits in the second and third commitment periods[19].][4]

[4][Limits on transfers

342. (151) Option 1: Parties included in Annex I shall not fulfil their obligations under Article 3 primarily through extraterritorial means[3]. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and

demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission reduction and limitation commitment[3];

Option 2 (i): Net transfers by a Party included in Annex I for all three mechanisms together must not exceed:

5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5').[10]

However, the ceiling on net transfers can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8[10].

Option 2 (ii): The overall 'cap' on the use of the three mechanisms should not exceed 25-30 per cent as a maximum[20].

Option 3: Access to Article 17 by a Party included in Annex I is contingent on [satisfaction of prescribed domestic effort in fulfilment of commitments[3,6,11]] [domestic policies and measures being the principal means of achieving its quantified emission limitation and reduction commitments[13]] under Article 3[3,6,11,13]. A quantified ceiling on the emissions limited and reduced through the mechanisms shall be defined. Commensurate non-compliance processes must be prescribed[13].

Option 4: It is necessary to set limits on the use of mechanisms to meet emission targets in the first commitment period. However, if objective criteria to prevent hot air are established, it might be reasonable to remove limits in the second and third commitment periods[19].][4]

D. Participation

343. (152) Option 1: [A Party may not participate[4][, or authorize any legal entity to participate,][4] in emissions trading under Article 17 unless[10]] [A Party included in Annex I shall be eligible to "transfer" or "acquire" part of the assigned amount, if[6]] it:

(a) (f) Is in compliance with the provisions of Articles [3[11,13]] 5 and 7 of the Protocol [and Article 12 of the Convention[10]][10,11,13,19,24];

(b) (b) [10][[Is bound by the[3,10]] [Has not been excluded according to the[3,10,11,13,24]] procedures and mechanisms under the compliance regime adopted by the [COP] [COP/MOP][3,10,11,13,24];][10]

(c) (d) [10][Has had its national inventory certified by an accredited independent entity according to international standards agreed by the [COP] [COP/MOP][24];][10]

(Note: Depending on the rules agreed for expert review under Article 8 and the standards for national inventory systems under Article 5, this may not be necessary[24])

(d) (e) [Maintains a national registry that complies with the provisions of appendix C[11,19]] [[Has[13]] [Establishes[18]] [a transparent national system for registration and verification of transfers and acquisitions[13]] [for managing and monitoring emissions trading[18]]. Internal verification must be carried out before reports are submitted to the [COP] [COP/MOP][18];

(e) Has achieved sufficient emission reductions through domestic policies and measures[3,6,13];

Option 2: A Party may not participate, or authorize any legal entity to participate, in emissions trading under Article 17 if it is found:

(a) (a) Not to be in compliance with its inventory and registry-related obligations under Articles 5 and 7[4];

(b) (b) [Not to be maintaining a national registry, in accordance with appendix C[4]] [Not to have a national system for managing and monitoring emissions trading. Internal verification must be carried out before reports are submitted to the [COP] [COP/MOP][18]];

(c) [10][Not to have obtained certification for its national inventory by an accredited independent entity according to international standards agreed by the COP [COP/MOP[2]][24,2];][10] and

(d) Not to have achieved sufficient emission reductions through domestic policies and measures[3,6,13].

(Note: Need to assess whether de minimis inconsistencies with these requirements need to be addressed.[4])

344. If, in addition to the provisions of Article 6, paragraph 1 (c) or 4, a Party included in Annex I may or shall lose its eligibility to participate in the mechanisms when it is in non-compliance with all or specified provisions of Articles 5 and/or 7, a Party included in Annex I also shall lose its eligibility to participate in the mechanisms when it is in

non-compliance with any provision of Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, or 11[20].

345. If, in addition to the provisions of Article 6, paragraph 1 (c) or 4, a Party included in Annex I may or shall lose its eligibility to participate in the mechanisms when it is in non-compliance with all or specified provisions of guidelines or modalities established, or with other decisions taken, by the COP/MOP pursuant to Articles 5 and/or 7, a Party included in Annex I also shall lose its eligibility to participate in the mechanisms when it is in non-compliance with any guideline, modality, rule or principle established, or decision or other action taken, by the COP/MOP pursuant to Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, 6, 11 or 12 or any principle, modality, rule or guideline established by the COP pursuant to Article 17[20].

346. (168) [10][A Party operating under Article 4 [may[4,22]] [may not[4]] [acquire[4]][transfer[4]] any AAUs under Article 17[4] if another Party operating under the same Article 4 agreement, or if a regional economic integration organization to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7[4].][10]

347. (154) Changes in a Party's eligibility to trade or changes pertaining to new entrants that meet the eligibility criteria may occur during the current commitment period[10].

348. (155) A Party included in Annex I may authorize legal entities to transfer and acquire [, under its responsibility,[10]] [under Article 17[4]] [excess AAUs[24]] in accordance with [the same principles, modalities, rules and guidelines as Parties] [international guidelines for legal entities[19]][4,10,19,24], if the Party:

(a) (a) Is eligible to participate in emissions trading[10];

(b) (b) [10][Has established and maintains a national system for accurate monitoring, verification, accountability and allocation of AAUs to legal entities[10,18,24] and for controlling the effects of trade on the Party's assigned amount[18], in accordance with appendix A[10,24];][10]

(Note: Australia et al. comment that they do not support the proposal in subparagraph (b) above and that the above-mentioned appendix A is not necessary (see FCCC/SB/2000/MISC.1).)

349. (156) A Party that authorizes its legal entities to transfer or acquire AAUs shall remain responsible for fulfilment of its obligations under the Protocol[3,4,10,19,24].

[4,10][E. Share of proceeds

350. (157) A specified percentage of the [AAUs transferred][value of each emissions trading transaction] will be contributed to help meet administrative expenses and the adaptation needs of [the most vulnerable] developing country Parties[3,5,7,8,17,21,25,26].

351. The share of proceeds to assist in meeting adaptation costs shall be the same as for the provisions in paragraph 8 of Article 12[7].][4,10]

II. METHODOLOGICAL AND OPERATIONAL ISSUES

A. Modalities of operation

352. (158) Option 1: Transfers and acquisitions of any part of the assigned amount could be effected through bilateral or multilateral arrangements between or among Parties included in Annex I, without creating a new international business transaction system or regime[6].

Option 2: Transfers and acquisitions of AAUs between Parties may [shall[10]] take place through an exchange[10]. This exchange shall also be open to legal entities[10].

Option 3: Bilateral and multilateral arrangements, as well as exchanges, are acceptable options for Parties and legal entities to choose to use in order to facilitate emissions trading under the Protocol.[4]

353. (158bis) Transfers and acquisitions of assigned amount (derived from initial assigned amounts under Article 3, paragraph 7, as adjusted under other provisions of Article 3) shall be made in units of assigned amount of one metric ton of CO_2 equivalent (calculated using the global warming potential defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5) issued by a Party and identified by a unique serial number that includes the Party of origin and the commitment period for which the units are issued. (Units of assigned amount may be banked for use in future commitment periods pursuant to Article 3, paragraph 13).[4]

354. (160) Any Party wishing to transfer or acquire AAUs shall publish the amount to be transferred prior to the transfer[10].

355. (161) [10][Arrangements made among subsets of Parties, including within regional economic integration organizations, should be subject to the oversight of, and be accountable to, the [COP] [COP/MOP][3].][10]

B. Verification

356. Transfers and acquisitions must be certified by a [COP] [COP/MOP[13]] designated independent entity, according to the rules, modalities and guidelines decided by the [COP] [COP/MOP[13]][13].

C. Issues related to compliance

357. Option 1: [Seller][Transferring Party[2]][Originating Party[2]] liability: A Party whose actual emissions for the commitment period exceed its assigned amount [(adjusted for transfers and acquisitions of AAUs, ERUs and CERs)[4]] [(as adjusted pursuant to Article 3)[4]] after the compliance deadline will be subject to the provisions of the compliance regime [4][adopted by the [COP] [COP/MOP]][4].

Option 2: Shared liability: If a Party is found to be in non-compliance with its commitments under Article 3, a portion [x per cent] of any of its AAUs that have been transferred to other Parties under the provisions of Article 17, shall be invalidated and cannot be used for the purpose of meeting commitments under Article 3 or further traded[10,18]. The portion [x per cent] to be invalidated shall be some multiple of the degree of non-compliance[10]. The degree of non-compliance is the percentage difference between emissions in the commitment period and the assigned amount[10].

(165) Option 3: [Buyer] [Acquiring Party[2]] liability: If a Party included in Annex I is in non-compliance with its commitments [under Article 3[2]], that part of the assigned amount that has been 'transferred' in accordance with Article 17 shall be invalidated[6,11].

Option 4: 'Trigger': If a question is raised concerning a Party's compliance with its commitments under Article 3 and the Party is subsequently found to be in non-compliance, any AAUs that have been transferred to other Parties under the provisions of Article 17 after the point in time at which the question was raised shall be invalidated and cannot be used for the purpose of meeting commitments under Article 3, or further traded[10]. Such questions can only be raised in particular circumstances to be defined[10].

Option 5: Compliance reserve: A portion [x per cent] of every transfer of AAUs under Article 17 shall be placed in a compliance reserve[10]. These AAUs may not be used or traded[10]. The secretariat, as part of the annual compilation and accounting of emissions inventories and assigned amounts under Article 8, shall include information on the AAUs deposited in the compliance reserve[10]. At the end of the commitment period, such AAUs shall be returned to the Party of origin if that Party is in compliance with its commitments under Article 3, in which case the AAUs can be transferred or banked for future commitment periods[10]. If, at the end of the commitment period, a Party is not in compliance with its commitments under Article 3, an appropriate number of units deposited in the reserve account shall be invalidated, in which case they may not be further used or traded[10].

Option 6: Units in surplus to plan: Emissions trading under Article 17 shall operate under an annual post-verification trading system limited to AAUs determined to be surplus to a Party's allocation plan[18,24]. Each Party that wishes to undertake transfers under Article 17 shall allocate its total assigned amount among the five years of the commitment period and notify the secretariat of these annual allocations prior to the start of the commitment period[24]. A Party can at any time adjust its annual allocation for the remaining years of the commitment period by notifying the secretariat in advance of the year(s) in question[24]. The assigned amount allocation to any single year should not exceed plus or minus 20 per cent of the total assigned amount divided by five[24].

Excess AAUs for a given year shall be calculated as follows[24]:

(a) (a) Cumulative assigned amount allocation from the beginning of the commitment period through the given year minus cumulative emissions from the beginning of the commitment period through the given year[24];

(b) (b) In addition, the amount of excess AAU certificates issued for previous years of the commitment period and cumulative ERUs transferred under Article 6 shall be subtracted to obtain the annual excess AAUs.[24] Holdings of ERUs and CERs shall not be included in the calculation.[24]

The secretariat shall verify the availability of excess AAUs and issue certificates for them[24]. All issued certificates shall be valid on the market without any liability or trade-specific compliance rules[24].

[10][Option 7: Surplus units: Only excess reductions may be transferred and acquired under Article 17[13]. The assigned amount is the emission reduction commitment of a developed country Party[13]. A Party included in Annex I may transfer a part of its assigned amount to another Party included in Annex I under Article 17 if that Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment thereby resulting in a part of the assigned amount of emissions not being used. Nothing else can be transferred and acquired under Article 17[13].][10]

358. If a Party's consistency with the requirements of Article 17 is called into question [by the review process under Article 8] [by other means], the issue will be expeditiously resolved [through a general procedure applicable to the Protocol] [through a specialized procedure].[4]

359. (167) [10][A Party or legal entity that exceeds its assigned amount at the end of the commitment period may not transfer AAUs to another Party, but may acquire AAUs from another Party[19]. At the end of each commitment period, there shall be a [short time period[4]]

during which Parties have the opportunity to cure any emissions overage (e.g. through acquiring AAUs)[4,19].][10]

360. (169) If a question of implementation by a Party included in Annex I of the requirements referred to in the principles, modalities, rules and guidelines relating to Article 17 is identified, transfers and acquisitions of AAUs may continue to be made after the question has been identified, provided that they may not be used by a Party to meet its commitments under Article 3 until any issue of compliance has been resolved in favour of the Party in question[10]. Such a question shall be expeditiously resolved.

(Note: Australia et al. (see FCCC/SB/1999/MISC.3/Add.1) raise the question of the need to address the issue of whether a Party whose emissions exceed its assigned amount for the previous commitment period should retain its eligibility to participate in emissions trading under Article 17 in the subsequent commitment period.)

361. If, in addition to the provisions of Article 6, paragraph 1 (c) or 4, a Party included in Annex I may or shall lose its eligibility to participate in the mechanisms when it is in non-compliance with all or specified provisions of Articles 5 and/or 7, a Party included in Annex I also shall lose its eligibility to participate in the mechanisms when it is in non-compliance with any provision of Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, or 11[20].

362. If, in addition to the provisions of Article 6, paragraph 1 (c) or 4, a Party included in Annex I may or shall lose its eligibility to participate in the mechanisms when it is in non-compliance with all or specified provisions of guidelines or modalities established, or with other decisions taken, by the COP/MOP pursuant to Articles 5 and/or 7, a Party included in Annex I also shall lose its eligibility to participate in the mechanisms when it is in non-compliance with any guideline, modality, rule or principle established, or decision or other action taken, by the COP/MOP pursuant to Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, 6, 11 or 12 or any principle, modality, rule or guideline established by the COP pursuant to Article 17[20].

D. [Registries] [Registration[6]]

363. Registries shall be established and maintained in accordance with appendix C[2].

E. Reporting by Parties

364. (176) Each Party [included in Annex B[4,6,13]] participating in[, or authorizing any legal entity to participate in,[10,11,24]] [emissions trading[10,11,24]] [the transfer and acquisition of parts of

assigned amounts under Article 17[6,13]] shall include in its [national inventory[6,13]] [annual submission to the secretariat[4,10,11,24]] under Article 7, paragraph 1 [6,10,13,11,24], *inter alia*, information[, in a standard electronic format,[4]] on:

(a) The serial numbers of AAUs, ERUs, and CERs held in its national registry at the start of the year[4];

(b) The serial numbers of any AAUs issued into its national registry during the year and the reasons for their issuances[4];

(c) (a) [The serial numbers of AAUs, [ERUs, and CERs[4]] transferred to each other Party's national registry and specify which Party or Parties[4,10,11,18]][Transfers of assigned amount[6,13] under Article 3, paragraph 10 and 11, in the relevant year[6]];

(d) [(a) The serial numbers of AAUs, [ERUs, and CERs[4]] acquired from each other Party's national registry and specify which Party or Parties[4,10,11,18]][Acquisitions of assigned amount[6,13] under Article 3, paragraph 10 and 11, in the relevant year[6]];

(e) The serial numbers of CERs acquired pursuant to Article 12[4];

(f) (b) The serial numbers of AAUs, [ERUs, and CERs[4]] that have been moved into the Party's retirement account[4,18]; and

(g) The serial numbers of AAUs, ERUs, and CERs held in its national registry at the end of the year[4].

365. Parties shall report to the secretariat prior to the [*insert reporting deadline for end of commitment period final assigned amount*] the serial numbers of any AAUs, ERUs, and CERs that they are banking forward to a subsequent commitment period pursuant to Article 3, paragraph 13[4].

366. (177) As part of the annual compilation and accounting of emissions inventories and assigned amounts under [Articles 7 and 8[13]] [Article 8[4,10,19]], the secretariat shall present a publicly available synthesis of the reports by Parties on transfers and acquisitions [of part of assigned amounts[13]] [of AAUs during such year, including which AAUs have been used by a Party for purposes of compliance with Article 3, paragraph 1[4,10,19]][4,10,13,19]. It shall provide Parties with the opportunity to investigate and correct any discrepancies in the recording of transfers of assigned amounts[4]. The synthesis shall reflect any remaining discrepancies[4].

III. INSTITUTIONAL ISSUES

A. Role of the COP and/or the COP/MOP

367. (178) [10][Emissions trading shall be subject to the authority and guidance of the [COP] [COP/MOP][3,13].][10]

368. The [COP[6,13]] [COP/MOP] shall define the relevant principles, modalities, rules and guidelines, in particular for verification, reporting and accountability for emissions trading[6,13].

369. (179) [4,10][The [COP[13]] [COP/MOP] shall:

(a) Accept or reject acquisitions and transfers of parts of assigned amount that have been reported by the Parties included in Annex B participating in emissions trading under Article 17[13]. The [COP[13]] [COP/MOP] shall ensure that any such trading shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments[13];

(b) (a) Define the roles of verification and auditing entities, including private sector entities[3];

(c) (b) Issue guidelines on national allocation and accountability procedures for legal entities[24];

(d) (c) Issue guidelines on the establishment of national registries[24];

(e) (d) Determine the share of proceeds, if any, to be imposed on transfers of AAUs to meet administrative expenses and to help meet the adaptation needs of the most vulnerable developing country Parties[2];

(Note: This function would be necessary should Parties agree on the proposal under share of proceeds)

(f) (e) Track the potential for distortion of competition and include standard checks in the guidelines[22].][4,10]

370. (180) [4,10][Any smaller bodies authorized to carry out executive functions on behalf of the [COP] [COP/MOP] shall have a membership that reflects the unique representational balance established by the practice of the Parties (such as the COP Bureau)[3].][4,10]

B. Parties

371. (181) A Party participating in Article 17 shall:

(a) (b) Establish and maintain a national registry containing records of holdings, transfers, acquisitions, [transfer prices[19]] and retirements of AAUs by the Party itself and legal entities resident in the Party in accordance with the guidelines in appendix C[4,10,11,18,19,24], through the standard electronic database system accepted by the COP/MOP[19];

(b) (c) Maintain an up-to-date list of legal entities resident in that Party authorized to participate in emissions trading under Article 17 and make it available to the secretariat and the public[10,19];

(c) (a) Establish and maintain a national system for accurate monitoring, verification, accountability and allocation of AAUs to legal entities[10,18,24] and for controlling the effects of trade on the Party's assigned amount[19];

(d) (d) Report annually on activities under Article 17 [to the secretariat[19]] in accordance with guidelines adopted by the [COP] [COP/MOP][4,10,11,18,24];

(e) (e) Ensure that resident legal entities authorized to participate in emissions trading under Article 17 comply with applicable rules and procedures.

C. Administrative support

372. (182) The secretariat established by Article 8 of the Convention shall carry out the following functions regarding emissions trading under Article 17[2]:

(a) Under the guidance of the [COP[13]] [COP/MOP], the Convention secretariat shall serve as the secretariat for compiling information on the transfers and acquisitions by Parties included in Annex B of parts of assigned amounts in "emissions trading" under Article 17, on the basis of the reports submitted by the relevant Parties included in Annex B, and for presenting annually a publicly available synthesis of the reports on such transfers and acquisitions in accordance with the relevant provisions of the Protocol[13].

(b) (183) Option 1: The secretariat shall make publicly available information on the Parties that are eligible to participate in [international trade[10]] [the transfer and acquisition of parts of assigned amounts under Article 17[6]];

Option 2: The secretariat shall maintain a publicly accessible list of Parties that have been found to be ineligible to participate in emissions trading under Article 17.[4]

D. Review

373. (184) The [COP] [COP/MOP] shall review the principles, modalities, rules and guidelines governing the operation of [the emissions trading system[10]] [emissions trading under Article 17[6,13]][6,10,13]. The first review shall be carried out no later than the year [4][2012][4].[10] Further reviews shall be carried out periodically thereafter[10].

374. (185) [4][Changes in principles, modalities, rules and guidelines shall take effect in commitment periods subsequent to that of their adoption[10]. Changes in a Party's eligibility to trade or changes pertaining to new entrants that meet the eligibility criteria may occur during the current commitment period[10].][4]

APPENDICES TO PART FOUR: EMISSIONS TRADING

"[A. National systems]"

(Note: The European Union et al. propose that guidelines be elaborated on the establishment, maintenance and international compatibility of national systems for accurate monitoring, verification, accountability and allocation of AAUs to legal entities (see document FCCC/SB/1999/8, para. 155, option 1). Australia et al. comment that they do not support the proposal on national systems and that this appendix is not necessary (see document FCCC/SB/2000/MISC.1).)

B. Reporting

(Note: Submissions by Parties on reporting have been incorporated in section II.E.)

APPENDICES TO PART FOUR: EMISSIONS TRADING

C. Registries

375. Option 1: Each Party [included in Annex I, with an emission limitation or reduction commitment inscribed in Annex B[4]] [included in Annex B[10]], shall establish and maintain a national registry[4,10,11,18,24] to ensure the accurate accounting of [initial[10]] assigned amount and track [changes to the Party's assigned amount[4]] [adjustments to it resulting from transfers and acquisitions of ERUs, CERs and AAUs[10]] [issuance, transfers, acquisitions and retirement of ERUs, CERs and AAUs[2]][4,10,24] to assist in determining that Party's compliance with its Article 3 commitments[10]. In addition, the secretariat shall hold a computerized central registry for the purposes of retiring assigned amount[10].

Option 2: A central registry shall be established with the aim of tracking the generation, transfer and retirement of AAUs, CERs and ERUs transferred under the mechanisms[3].

376. National registries shall be guided by transparency, integrity and consistency, where[10]:

(a) 'Transparency' relates to the need to ensure that Parties will allow public scrutiny of their registries, in a clear and comprehensive way, in order to facilitate trades, increase market efficiency, and ensure proper supervision and monitoring[10];

(b) 'Integrity' relates to the need to ensure that all transfers having an impact on the Parties' assigned amount are reflected in their registries, and that no relevant information goes unreported[10]; and

(c) 'Consistency' regards the need to ensure that all national registries will meet basic requirements, so that tracking and monitoring of ERUs, CERs and AAUs is facilitated and assured[10].

377. Each Party shall identify an organization (government or private) to maintain the Party's national registry on behalf of the Party and perform the necessary functions (the registry 'administrator')[4].

378. Registries shall contain the relevant publicly accessible minimum data elements, described in annex Y of this appendix[4].

379. Registries shall be kept in the form of [computer databases[4,19]] [a computer accounting system[10]][4]. Each AAU shall be held in an account in a registry[2]. The design of registries shall be compatible [and trades will be recorded in a standardized electronic format[10]] so that transactions can occur [instantaneously[4]] [in near real time (maximum one working day)[10]][4], and so that each AAU is only held in one account and in one national registry[4,10]. The format of these computer databases shall conform to the guidelines contained in annex W *[to be*

elaborated at a future date} of this appendix and shall accommodate the holding of ERUs, CERs and AAUs within the national registry[4].

380. (175) [10][Any two or more Parties may voluntarily maintain their registries in a consolidated system, within which each registry would remain legally distinct[4].][10]

381. AAUs shall be serialized at the time that a Party's assigned amount, pursuant to Article 3, paragraphs 3, 4 and 7, is issued into its national registry in accordance with the guidelines detailed in annex X *{to be elaborated at a future date}* of this appendix[4].

382. Serial numbers shall ensure that each AAU is unique[4,10] and shall be constructed in accordance with section B in annex Y of this appendix[2].

383. Each account shall contain information in accordance with section A of annex Y of this appendix[2].

384. Where a Party included in Annex B elects to authorize domestic legal entities to hold AAUs in the Party's national registry, each such holder of AAUs shall be required to have a separate account within its national registry[4]. However, each unit shall be registered in only one account in one national registry[10].

385. Option 1: Any transfer of units between different accounts shall result in a change of holdings in the appropriate accounts (a debit (-) in one account and a credit (+) in the other)[4,10]. This shall be achieved by moving specific serialized units from one account to the other[4].

Option 2: (171) [10][Upon verifying the availability of excess AAUs and the issuance of certificates for them by the secretariat, excess AAUs shall be subtracted from the assigned amount of the relevant Party[24]. The secretariat shall undertake this transaction by transferring the serial numbers for the certified excess AAUs to the [acquiring2] Party's registry[24]. In turn, an equal number of AAUs shall be retired from the Party's assigned amount[24].][10]

386. Where a Party included in Annex B has authorized its domestic legal entities to engage in emissions trading under the provisions of Article 17 and where, if applicable depending on national choice, the Party has given its approval to the entities to transfer or acquire AAUs, holdings of AAUs may be transferred from one national registry to another national registry[4].

387. Any transfer of units between national registries shall be initiated by the current holder directing the administrator to transfer the units to another account in another registry[4].

388. A record of all transactions involving an account established in a given national registry shall be kept in the national registry[10] in accordance with section C of annex Y of this appendix[2]. Information concerning the date of every transfer from an issuing Party's national registry, should be attached to every AAU transferred from the issuing Party's registry[10].

(Note: The European Union et al. observe that the necessity of date information depends on the specific liability rules adopted.)

389. [Each national registry of a Party included in Annex B shall include a dedicated retirement account for each commitment period to identify the ERUs, CERs and AAUs used by the Party for the purposes of demonstrating compliance with their Article 3, paragraph 1, obligations[4].] [In addition to national registries, the secretariat shall hold a computerized central registry[10]. A retirement account for each Party included in Annex I should be established in this central registry[10].] Parties shall retire ERUs, CERs and AAUs into this account to cover their emissions for the purpose of compliance with their commitments under Article 3[4,10]. Such units cannot be further traded[4,10].

390. The expert review under Article 8 shall review the safety and integrity of national registry systems[10]. The safety and integrity of the national registry system shall be provided for through specific provisions controlling the implementation of relevant provisions in this appendix[10].

Annex Y[4]

PUBLICLY ACCESSIBLE INFORMATION FROM A PARTY'S NATIONAL REGISTRY[4]

I. MINIMUM DATA ELEMENTS IN A PARTY'S REGISTRY[4]

391. Except where noted, the following data elements shall be stored in a Party's national registry[4].

A. Account information[4]

(Note: Australia et al. observe that, at a minimum for each Party's registry, this would include an account containing the Party's serialized assigned amount and a retirement account for each commitment period to hold assigned amount which is retired to demonstrate compliance with the Party's Article 3.1 commitment. In addition, where a Party included in Annex B authorizes legal entities to hold assigned amount in their national registry, the assigned amount must be reflected in an account established within the national registry for each assigned amount holder.)

392. The name of each account in the registry[4,10]. This corresponds to the following field of data in the relational database: account name[4].

393. The number of each account[4]. A unique number would be assigned to identify each account and in which registry the account is held[4]. Where appropriate, the account number would use the two-letter codes (ISO 3166) defined and maintained by the International Organization for Standardization[4]. Account numbers would begin with the code identifying in which registry the account is held and be followed by a number, unique when combined with the registry code (e.g. account number US-1009)[4]. This corresponds to the following field of data in the relational database: account number[4].

394. The type of each account[4]. This would identify the type of account (e.g. retirement account)[4]. For retirement accounts, the compliance period, for which units held in the account are being used, would also be identified[4]. This corresponds to the following fields of data in the relational database: account type, compliance period[4].

395. The representative for each account[4,10]. This would identify the individual person representing the government, or where applicable, the legal entity holder of the account[4]. The first and last representative name would be identified[4]. This corresponds to the following field of data in the relational database: representative name[4].

396. An identification number for each account representative[4]. A unique number would be assigned to identify each account representative and in which registry the representative holds an account(s)[4]. This corresponds to the following field of data in the relational database: representative identification number[4].

397. Contact information for the account representative[4,10]. This would include the mailing address, phone number, fax number and/or email address of the account representative[4,10]. This corresponds to the following fields of data in the relational database: representative mailing address, phone, fax and email[4].

B. Assigned Amount Information[4]

(Note: Australia et al. observe that assigned amount information would include the entire assigned amount held in each account, represented as serialized units. Each serial number would be unique and identify the commitment period for which the unit was issued, the country of origin (e.g. 1-US-765034) and, where applicable, the project identifier. Serial numbers could be stored in a block, represented by start and end numbers (e.g. 1-NZ-000245-000978). For ease of data management in a database format, it would be useful to store these pieces making up the serialized unit in separate fields (i.e. associated commitment period, country of origin, starting serial number, ending serial number, and project identifier).)

Option 1:

398. The commitment period associated with each block of assigned amount[4]. This commitment period code should be a number which identifies the commitment period for which the unit or block of serial numbers is issued (e.g. the first commitment period, 2008-2012, would be identified by '1'[4]. This corresponds to the following field of data in the relational database: associated commitment period[4].

399. The country of origin[4]. For units issued by a Party included in Annex B (pursuant to Article 3, paragraphs 3, 4 and 7, including when subsequently transferred under Article 6), the country of origin will be the Party of issuance[4]. For units generated under the CDM, the country of origin will be the host Party for the project[4]. The country of origin code shall be the two-letter codes defined and maintained by the ISO (ISO 3166)[4]. This corresponds to the following field of data in the relational database: country of origin[4].

400. The numerical starting serial number and ending serial number for the block of assigned amount[4]. For a single unit, the starting and ending serial number will be the same[4]. This corresponds to the following fields of data in the relational database: starting serial number, ending serial number[4].

401. Where applicable, the code identifying the project for which the units were initially transferred/issued[4]. Each ERU and CER will have a project identifier associated it[4]. Units

transferred at a later stage, but from the same project, will have a different project identifier[4]. This project identifier will be a unique number when combined with the country of origin[4]. This corresponds to the following field of data in the relational database: project identifier[4].

Option 2:

402. The serial number shall be constructed so that the first field identifies the Party of origin, the second field identifies the relevant commitment period, and the third field identifies the AAU[10]. All AAUs shall have the final suffix number "3" to distinguish them from ERUs and CERs[10].

(Note: The European Union observes that the Party identifier, contained in the first field, could be attributed to each Party according to the order in Annex B of the Protocol.)

C. Transaction information[4]

(Note: Australia et al. observe that transaction information includes the following activities: issuance of assigned amount pursuant to Articles 3.3, 3.4, and 3.7, issuance of assigned amount in the form of CERs pursuant to Article 12, and movement of assigned amount from one account to another within a registry or between registries (including transfer as a result of a JI project, and movement of units into the retirement account in order to demonstrate compliance with a Party's Article 3.1 commitment.)

403. A unique transaction number[4]. Each transaction in a Party's registry would be assigned a unique transaction number[4]. This corresponds to the following field of data in the relational database: transaction number[4].

404. A code identifying the type of transaction[4]. Each transaction would be assigned a transaction type[4]. For example, a code 'IA' would indicate issuance of initial assigned amount; a code 'IS' would indicate issuance of assigned amount based on activities under Article 3, paragraphs 3 and 4; a code 'TR' would indicate transfer of units between accounts and/or registries; and a code 'RT' would indicate a transfer into the retirement account[4]. This corresponds to the following field of data in the relational database: transaction type[4].

405. The date of the transaction[4]. The date of each transaction would be stored[4]. This corresponds to the following field of data in the relational database: transaction date[4].

406. The accounts involved in the transaction[4]. For each transaction, the transferor and transferee account numbers would be stored[4]. This corresponds to the following fields of data in the relational database: transferor account number and transferee account number[4].

407. The status of the transaction[4]. For each transaction a code shall be stored indicating whether the transaction is pending or whether the receiving registry/account has accepted or

rejected the transfer[4]. This corresponds to the following field of data in the relational database: transaction status[4].

II. PUBLIC ACCESSIBILITY[4]

408. Option 1: Each registry shall provide a publicly accessible user interface that allows interested persons to query and view non-confidential information contained within the registry[4,10,19]. A registry containing the minimum elements outlined in this annex should allow interested persons to retrieve a variety of reports, including, but not limited to, the following[4]:

(a) A list of initial assigned amount issued as AAUs by a Party included in Annex B pursuant to Article 3, paragraph 7[4];

(b) The current account balance and holdings of account holders within the national registry[4];

(c) The quantity of active (i.e. non-retired) AAUs, ERUs, and CERs within a national registry[4];

(d) A list of AAUs, ERUs, and CERs retired for compliance purposes for each commitment period[4]; and

(e) A list of any changes, and reasons for the changes, to a Party's holdings of AAUs, ERUs, and CERs[4].

Option 2: The registry - including account holdings and name, address and identity of named representatives of accounts - shall be publicly accessible[10].

409. Parties shall be responsible for providing basic information on how to use their national registry system[10].

Annex

CODE OF SOURCES

1	Text from the Kyoto Protocol
2	Proposals from the chairmen
3	Alliance of Small Island States
4	Australia, Canada, Iceland, Japan, New Zealand, Norway, the Russian Federation, Ukraine and the United States of America
5	Burkina Faso
6	China
7	Costa Rica
8	Gambia
9	Georgia
10	The European Community and its member States. Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and Switzerland have associated themselves with some or all of these submissions (for details, please refer to the relevant miscellaneous documents);
11	Group of 77 and China
12	Guatemala
13	India
14	Mauritius
15	Mexico
16	Nigeria
17	Peru
18	Poland
19	Republic of Korea
20	Saudi Arabia
21	Sierra Leone
22	South Africa
23	Sudan
24	Switzerland
25	Togo
26	Uganda
27	Uzbekistan
28	Argentina, Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay and Uruguay
29	Chile
30	The African Group
31	Senegal
32	Venezuela

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